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The American University in Cairo
School of Humanities and Social Science

**Regime Building in the Levant:
The feasibility of cooperation in the Levant Basin**

A Thesis Submitted to
The Department of Political Science

In Partial Fulfillment of the Requirements For
The Degree of Master of Arts

By

Johnny Rishmawi

Under the Supervision of **Dr. Clement Henry**

February/2014

The American University in Cairo

**Regime Building in the Levant:
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Abstract

The Levant Basin has become an increasingly hot political issue in the Middle East and Southern Europe. Many—countries like Greece, Lebanon, and Cyprus see the basin's new energy possibilities as an important economic tool to guide their struggling economies. Others like Turkey, Syria and Egypt see it as a threat. Israel, the most advanced country in exploration, has begun the search for the best political and economic partners to develop the country's energy sector. Due to the geopolitical implications of natural resources, the possible changes in the balance of power that may arise, or the increased potential importance of the region to great powers, this thesis attempts to cover the likely political outcomes of the energy resources by exploring the different possible cooperation schemes among regional powers. This thesis explores cooperation scenarios between Israel and the other regional powers in the Eastern Mediterranean, Egypt, Greece, and Turkey. Using the liberal theories of international regimes and cooperation, this thesis investigates the possibilities of partnerships between the Levant powers and the feasibility of regime formation. We find that the most prominent candidates for fostering natural gas regimes are Israeli-Egyptian and Israeli-Turkish partnerships. To explore their potential, I model regime building, as expressed in Robert Keohane's theory of international regimes, by applying David Axelrod's iterated prisoner's dilemma (IPD) to envision the conditions of cooperation or defection from the proposed partnerships.

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LIST OF ABBREVIATIONS

AKP	Justice and Development Party
Bcf	Billion Cubic Feet
CHP	People's Republican Party
EEZ	Exclusive Economic Zone
EU	European Union
FLNG	Floating Liquefied Natural Gas
IPD	Iterated Prisoner's Dilemma
LNG	Liquefied Natural Gas
Mcf	Million Cubic Feet
Mtoe	Million Tones of oil equivalent
Tcf	Trillion Cubic Feet
TRNC	Turkish Republic of Northern Cyprus
UNCLOS	United Nation Convention on the Law of Sea
UNSC	United Nations Security Council
USGS	United State Geological Survey
WWI	World War One
WWII	World War Two

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Chapter 1: Introduction

Deputy Chairman of the Turkish Development and Justice party (AKP) Omar Celik declared, “We have shown clearly to everyone that we will not allow the Eastern Mediterranean to become a Greek-Cyprus-Israel goal”. The Turkish leader was speaking in response to deployed F15s by Israel over a Turkish seismic ship exploring for natural gas in September 2011.¹ The increased exploration and licensing activity in the Eastern Mediterranean comes amidst three sizable natural gas findings in the Levant Basin and a U.S. Geological survey (USGS) report. The report estimates that the Levant Basin contains a mean of 1.7 billion barrels of recoverable oil and 122 trillion cubic feet (Tcf) of recoverable gas.² In comparison, the United States proven recoverable reserves are estimated around 300 Tcf of natural gas,³ 122 Tcf is hardly a game-changer for global markets. But, regionally, natural gas reserves in the Levant basin can play a paramount role in the market and shifting geopolitical interests.

The Levant countries are strategically positioned to deliver gas to the European Union’s (EU) 27 countries and Turkey. In 2013, the EU27 imported almost 11 Tcf, 43% of which came from Russia.⁴ In 2011, Turkey imported 1.5 Tcf with more than half coming from Russia.⁵ Figures indicated in the survey, if recoverable, would make the Eastern Mediterranean countries pivotal players in the regional energy market. According to the World Bank, the total population of the Levant Basin countries (Palestine, Israel, Cyprus, Syria, and Lebanon) is 39.9 million, or

¹ "Israeli Jets 'buzz Turkish Drill Ship'" UPI. September 30, 2011. Accessed March 15, 2013.

http://www.upi.com/Business_News/Energy-Resources/2011/09/30/Israeli-jets-buzz-Turkish-drill-ship/UPI-52831317402419/.

² Schenk, C.J., Kirschbaum, M.A., Charpentier, R.R., Klett, T.R., Brownfield, M.E., Pitman, J.K., Cook, T.A., and Tennyson, M.E., 2010, Assessment of undiscovered oil and gas resources of the Levant Basin Province, Eastern Mediterranean: U.S. Geological Survey Fact Sheet 2010-3014, 4 p.

³ "BP." Statistical Review of World Energy 2013. Accessed April 18, 2013. <http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy-2013.html>.

⁴ "International Energy Statistics." Energy Information Agency. Accessed May 15, 2013.

<http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=3&pid=26&aid=1&cid=CG1,&syid=2008&eyid=2012&unit=BCF>.

⁵ "Turkey." U.S. Energy Information Administration - EIA - Independent Statistics and Analysis. February 1, 2013. Accessed March 23, 2013. <http://www.eia.gov/countries/cab.cfm?fips=TU>.

less than 8% of the total population of the United States.⁶ Per capita reserves are much higher than those of the United States. This makes energy independence a reachable target, which is an important strategic goal for the currently energy dependent countries. Fields already explored can shift these energy dependent countries to strategic natural gas actors pending optimization of their export potential.

Three medium-size field discoveries have been made in the Levant Basin. In 2009, a consortium of Noble Energy (a Houston-based firm) and three Israeli partner firms discovered the Tamar field with a mean estimate of 9.7 Tcf. In the following year, another consortium explored one of the largest natural gas finds in a decade, Leviathan, which was estimated to have 17-20 Tcf. In 2011, in drilling block 12 in Cyprus, Aphrodite field was discovered containing an estimated 3-9 Tcf.⁷ To fully optimize production from these fields, both Israel and Cyprus must create an export strategy. Israel has discovered other fields that contain small amounts of natural gas such as Tanin, containing an estimated 1.2 Tcf, and Mari-B and Noa, containing a combined of 1.5 Tcf.⁸ Israeli natural gas consumption was only 117 billion cubic feet (Bcf) in 2011, while Cyprus does not use natural gas. Both countries have plans to increase their consumption of natural gas, but national consumption will not be enough to explore these large fields optimally.

Cyprus and Israel are in a more advanced stage in their discoveries than other countries. Other governments surrounding the Levantine Basin have been much slower to develop a scheme of contracting and awarding exploration rights. Syria has been stuck in political meltdown since 2011; the Syrian civil war has hampered any effort by the government to explore offshore discoveries. In December 2013, Syria's government signed a 25-year deal with the

⁶ figures gathered from World Bank Data on population

⁷ Darbouche, Hakim, Laura Katiri, and Bassam Fattouh. "East Mediterranean Gas – What Kind of a Game-changer?" Oxford Institute for Energy Studies. December 2012. Accessed January 21, 2013. <http://www.oxfordenergy.org/2012/12/east-mediterranean-gas-what-kind-of-a-game-changer/>.

⁸ *ibid*

Russian firm but no development has been made yet.⁹ Lebanon, on the other hand, has been much slower than Cyprus and Israel on the issue. Lebanon carried out its first offshore licensing round in February 2013, but exploration and production agreements are not expected until early 2014.¹⁰ Lebanon's political instability has not helped the situation. Continuous fear of the next civil war, spreading Syrian conflict, and the dicey confessional politics of Lebanon have created difficulties in Lebanon's effort to move forward on offshore licensing. Since its sovereign debt crisis, Greece has been increasingly looking for a natural gas-bonanza to bail-out its troubled economy. While Greece is not in the Levant basin, other bodies of water in the Mediterranean exhibit many of the same geophysical structures.¹¹ Greece has commissioned a Norwegian company to conduct a seismic survey in 2012 and the government seeks to hold a licensing round in 2014.¹² Greece is moving forward with plans for exploration, although it lags behind the already made discoveries in the Levant Basin. Its unlikely that any explored fields could be used to facilitate joint export facilities with Israel. Egypt is another regional player in the gas market. Egypt has served as an exporter to global natural gas markets. In 2012, Egypt's LNG capacity served Europe and Asia and its pipelines served closer markets in Israel and Jordan.¹³ Israel's quick success in gas exploration can be traced to its overreliance on Egypt. But Egypt's gas potential has not been fulfilled due to the political volatility inside the country. Since January 2011, Egypt has experienced a wave of political turmoil handicapping government initiated

⁹ "Syria Inks Oil, Gas Deal with Russia Firm." Yahoo! News. December 25, 2013. Accessed January 23, 2014. <http://news.yahoo.com/syria-signs-major-oil-exploration-deal-russia-130615285.html>.

¹⁰ Nakhle, Carole. "Gas: Lebanon Needs a Clear and Robust Framework to Address the Challenges Ahead." LCPS. January 2013. Accessed February 23, 2014. <http://www.lcps-lebanon.org/featuredArticle.php?id=11>.

¹¹ Bruneton, Alain, Elias Konofagos, and Anthony E. Foscolos. "The Importance of Eastern Mediterranean Gas Fields for Greece and the EU." Pytheas Investor Service. January 2011. Accessed November 25, 2013. <http://www.pytheas.net/docs/20120119%20The%20Economic%20and%20Geopolitical%20importance%20of%20Eastern%20Mediterranean%20gas%20fields%20for%20Greece%20and%20the%20EU.pdf>.

¹² Pappas, John. "Mediterranean Sea Plays Offer New Opportunities." Offshore. October 7, 2013. Accessed November 23, 2013. <http://www.offshore-mag.com/articles/print/volume-73/issue-7/offshore-mediterranean/mediterranean-sea-plays-offer-new-opportunities.html>.

¹³ "Egypt." U.S. Energy Information Administration - EIA - Independent Statistics and Analysis. July 31, 2013. Accessed August 30, 2013. <http://www.eia.gov/countries/cab.cfm?fips=EG>.

market reforms, increasing security risks, and deterring foreign investments. Egypt's natural gas supplies to Israel were halted and its supplies to Jordan have been steadily decreasing. In addition, financial woes have caused energy shortages and government subsidies continue increasing economic inefficiencies and unabated consumption. However, these changes present opportunities for Israeli natural gas flow to Jordan and Egypt.

Israel's Knesset created the "Tzmach committee" in 2011 to evaluate the country's natural gas policy and make suggestions for the allocation of Israeli natural gas for the export market. The committee recommended in August 2012 that 53% of proven reserves be available for export in an effort to encourage the development of Israel's natural gas sector.¹⁴ The Israeli cabinet approved a law that would allow Israel to export 40% of production and keep 60%. This decision is designed to keep Israel energy sufficient for at least 25 years given current levels of reserves.¹⁵ Such quantities would make Israel a viable exporter of natural gas. Cyprus on the other hand, has great interest in partnering with Israel. Cypriot natural gas findings could use excess Israeli gas to create economies of scale. Cypriot and Israeli production, if combined and transported, could be a viable option for both countries.

The quantities found in fields like the Leviathan and Aphrodite promise to make the Levant Basin countries a regional player in the natural gas sector, but the inability to export diminish incentives for further exploration of the projected 122 Tcf of natural gas. The conflict and political implications that may arise in the Eastern Mediterranean are many. The first pressing issue is territorial water demarcation. As Part of the 1994 United Nations Convention of the Law of the Seas (UNCLOS), the concept of Exclusive Economic Zones (EEZs) gives the

¹⁴ Trilnick, Ital, and Avi Bar-El. "Tzemach Panel Would Allocate 84% of Gas Reserves for Export." Haaretz. August 29, 2012. Accessed January 28, 2013. <http://www.haaretz.com/business/tzemach-panel-would-allocate-84-of-gas-reserves-for-export-1.461281>.

¹⁵ Assis, Claudia. "Israel Clarifies Gas Export Policy: We're Keeping 60%." Marketwatch. June 19, 2013. Accessed September 15, 2013. <http://blogs.marketwatch.com/energy-ticker/2013/06/19/israel-clarifies-gas-export-policy-were-keeping-60/>.

right to countries to exploit outward of 12 nautical miles of their continental shelf up to 200 nautical miles. If countries have close borders, bilateral agreements among neighbors delineate these lines. Negotiating the claims of the respective EEZs

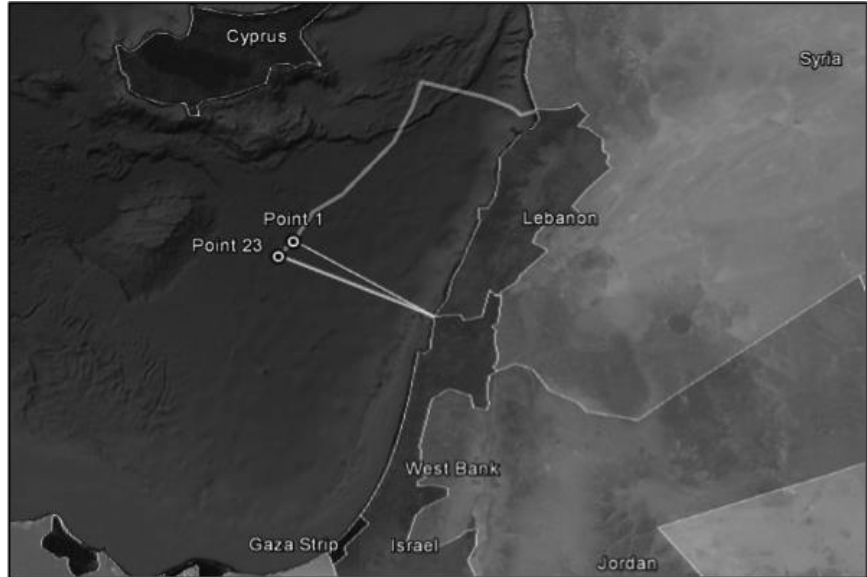


Figure 1: Map of claimed maritime borders between Israel and Lebanon.

complicates the energy strategy of each country; especially in a region where many countries do not recognize each other's existence.¹⁶ Lebanon has already claimed that part of the Leviathan field extends into its maritime border.¹⁷ Lebanon has not ratified its EEZ agreement with Cyprus in protest of Cyprus's agreement with Israel.¹⁸ As we can see in figure 1, Lebanon claims point 23 as part of its EEZ, while Israel only accepts point 1 to be Lebanon's EEZ.¹⁹

In addition, the ongoing conflict between Cyprus and Turkey complicates regional strategies for exports. Turkey is the only country in the world to recognize the Turkish Republic of Northern Cyprus (TRNC). Turkey has claimed that no drilling will occur unless Cyprus and Turkish Cyprus can agree on distributing revenue from natural resources. Turkey has also

¹⁶ "Lebanon, Cyprus to Review Offshore Energy." UPI. January 19, 2013. Accessed May 23, 2013. http://www.upi.com/Business_News/Energy-Resources/2013/01/09/Lebanon-Cyprus-to-review-offshore-energy/UPI-18571357742986/.

¹⁷ Comments: Lebanon has made a formal request to the United Nations disputing the Israeli-Cypriot agreement but the UN refused to mediate. On July 5, 2013, Lebanon's energy minister claimed that Israel is siphoning Lebanese gas by drilling in nearby blocks. In July 13, 2013, the United States announced its willingness to mediate the dispute between Israel and Lebanon.

¹⁸ "Cyprus-Lebanon, Cyprus-Israel Offshore Delimitation." Middle East Economic Survey. October 1, 2012. Accessed June 23, 2013. <http://www.mees.com/en/articles/6015-cyprus-lebanon-israel-ofshore-delimitation>.

¹⁹ Stocker, James. "No EEZ Solution: The Politics of Oil and Gas in the Eastern Mediterranean." *The Middle East Journal* 66, no. 4 (Autumn 2012): 579-97.

pressured Lebanon into not ratifying a bilateral agreement made with Cyprus.²⁰ On the other hand, further political tension in the region arising from potential hyper-nationalism--expressed in the so-called "Arab Spring"--is adding to pre-existing tension, thereby raising the likelihood for conflict.

The energy riches of the Levant basin represent both opportunity and risk to the Mediterranean region. Multilateral cooperation can mitigate the risks of natural gas discoveries. But many countries on the basin do not have diplomatic relations with one-another, which enhances political risks and complicate strategies for export. Unlike exporting hydrocarbons such as oil that require very little coordination, natural gas is characterized by regional markets, large facilities, pre-existing sales contracts, and long-horizon investment outlook. These characteristics require the facilitation of rules, agreements, and behavioral coordination. The formation of a natural gas issue-area regime will optimize benefits for the region and enhance the possibilities of cooperation. Regional powers, Israel, Egypt, Turkey and Greece, have strong interests to advance regional stability and develop economic benefits.

1.1 Questions and Hypothesis

The natural gas discoveries in the Levant can present an opportunity similar to the European Coal and Steel Community (ECSC), which developed by regional powers in Western Europe after World War Two (WWII). ECSC formed the bases of an economic and political framework for the regulation of coal and steel between France, West Germany, Italy and Benelux countries. ECSC experts regulated policies regarding steel and coal to enhance the economic benefits of both industries.²¹ It also fostered an environment of political interactions for the common benefit

²⁰ *ibid*

²¹ *Encyclopædia Britannica Online*, s. v. "European Coal and Steel Community (ECSC)," accessed February 13, 2014, <http://www.britannica.com/EBchecked/topic/196004/European-Coal-and-Steel-Community>.

of its actors. As the precursor to the creation of the European Community, the ECSC can be seen as a foundational regime base negotiated by regional powers to avoid future conflict and enhance economic cooperation. Similar to the ECSC, political and economic cooperation is required to enhance the regulation and economic benefits of natural gas in the Levant basin.

This thesis will investigate the feasibility of regime formation on the Levant Basin around Israeli natural gas exports. Because of the complexities of creating a multilateral regime in the region, I will investigate three separate bilateral foundations for a regime base. I study three separate alternative bilateral initial regime bases between Israel and the other regional powers. These three alternative foundational regime bases are 1) Israel-Egypt with the possibility of enlarging cooperation to Jordan and Palestine, 2) Israel-Turkey with the possibility of engaging Cyprus, Greece, Lebanon, and Syria, and 3) Israel-Greece with the future of attracting Cyprus, Lebanon and Turkey.

Regime theory is used as an avenue of analysis to the subject of issue-area cooperation. The questions asked by regime theorist are similar to those questions we seek to answer. These questions are: Under what conditions do nations cooperate? And at what point does cooperation become a regime? These are the same questions that this thesis attempts to answer about the future of the Levant Basin. The utility of looking at regime formation in this thesis is imbedded in the properties of natural gas, which requires long-term horizon planning and coordination. The infrastructure costs of natural gas necessitate pre-planned export markets that are often regional. In addition, large facilities for offshore natural gas involve extensive security planning and protection. Regime theory has consistently provided the theoretical analysis for issue-area cooperation between states.

In this thesis, I seek to use the tools of liberal regime theory to answer two main questions. First, what is the most optimal cooperation for exporting natural gas and setting up a regime? Second, is this bilateral regime base politically viable? *I hypothesize that the most optimal cooperation partners for exporting Israeli natural gas and creating a foundation for a regime are Egypt and Turkey. But without compromises on the regional territorial conflicts, notably Cyprus-Turkey and Arab Israeli, the likelihood of initial bilateral cooperation diminishes and the possibility of defection from cooperation could lead to an increase in conflict.*

1.2 Methodology and Chapters breakdown

This study applies both primary and secondary data. Primary data is collected from energy agencies and news articles relevant to the political and economic role of natural gas in the Levant. Secondary data is collected from conceptual and theoretical perspectives on cooperation, historical data on political economy cooperation, and foreign policy literature associated with relevant countries. Using these data, I analyze the most economically and politically viable foundational regime base available for cooperation on Israeli natural gas exports. After choosing the most optimal bilateral cooperation partner for Israel, I use the concept of an iterated prisoner's dilemma model (IPD) to envision possibilities of bilateral cooperation for founding a gas regime.

The remainder of this chapter, I introduce a literature review of the theoretical and conceptual frameworks I use to tackle the subject of cooperation and regime building in the Levant Basin. In addition, I review the literature about natural gas discoveries in the Levant Basin. The review of theoretical literature sheds light on the utility of regime theory and the concept of an IPD to our investigation. In the second chapter, I discuss and present a brief history of the EU-Russia natural gas regime to make clear what a natural gas regime might look like and

what are the foundational bases for establishing such a regime. Chapter two also informs our opinion about the alternatives to the IPD and allows us to choose cooperation that has the best chance of morphing into a regime. In chapter three, I present the historical bilateral relations of the most feasible regime base to identify patterns of political cooperation. In chapter four, I use the political patterns identified in the previous chapter to examine the environment for cooperation in the Levant Basin. The first section presents Israeli energy policy and objectives for the natural gas resources. I use historical political patterns to examine the current state of bilateral relations between Israel and the chosen foundational regime base. I then present the IPD scenarios for cooperation and defection. In the final section of chapter four, I highlight external powers motivations regarding the Levant basin and their ability to impact the outcome. In Chapter five, I conclude the findings of the study and attempt to make predictions based on the tested hypothesis.

1.3 Purpose of Study

This study seeks to contribute to the field of political science by examining the ability of regime theory to explain regime formation. This study uses regime theory as a tool for understanding the interest-based incentives of conflicting states, and analyzes the context of these interests in the international system and world politics. This study places regime theory under a different scope of analysis. It attempts to apply the theoretical underpinnings of regime formation in the Levant region. Using regime theory as an intervening variable for cooperation, I then investigate the probabilities of cooperation by formulating an IPD for the various alternatives for bilateral regime bases. In this thesis, I focus on the iterated two-player model. For Israel to optimize natural gas production it must find at least one export route. If Israel chooses to export without finding a regional partner, it will likely exacerbate tensions because of the naval capabilities

required to protect natural gas facilities. In addition, finding a regional export partner produces better economic gain for Israel. Thus, Israel will likely look for one regional partner to export its natural resource. This represents initial cooperation, which in the future could turn into a regional regime based on natural gas cooperation.

I also seek to understand the future of the riches in the Levant Basin. The research method intends to predict future foreign policy outcomes of states regarding natural resources. Given the transitional political variables, territorial rivalries, and its dominance in the global natural resources market, the Middle East is a very unique region. The countries competing for the Levant Basin constitute one of the most politically volatile areas in the world. This political volatility arises from a lack of mutual recognition. The Levant also continues to exhibit immense importance for great powers. Examining the role of a new variable, natural resources, is very important for the strategic development of national foreign policies of great powers and regional states.

1.4 Literature Review

1.4.1 Theoretical & Conceptual Framework

International relations scholars continue to exhibit great interests in researching cooperation amongst nations. Over the past 40 years, regime theory has become the leading tool in analyzing sustained cooperation between various national actors. However, realism (and its variances) and liberalism (and its variances) have sharp disagreements about the formation, utility, and the sustainability of regimes. Realists assume that states focus on each other's relative gains causing defection rather cooperation. That being said, realism has evolved into acknowledging cooperation among states in international regimes. But liberal internationalists and realists disagree on the fundamental condition under which states value gains. Liberals argue that states

focus on absolute gain while realists argue that states value relative gains.²² Realists contend that cooperation between states in anarchical structure is much like a prisoner's dilemma where actors coordinate in the form of an alliance. To counter this, liberals suggested that interactions among states are in a repetitive prisoner's dilemma making long-run cooperation sustainable.²³ These repetitive transactions cause states to engage in a regime. In our case study, I survey the feasibility of building a regime on the Levant Basin based on initial cooperation between the various regional powers. The two-player model illustrates the foundational regime base. For instance, other countries can utilize the natural gas infrastructure of the cooperating foundational two states. The main question of this thesis attempts to answer if cooperation between the various regional powers can be attained. Cooperation does not necessarily involve a regime. But regimes can only evolve out of cooperation.

Identifying regimes has always been a very complex task for political scientists. According to Oran Young, regimes are "social institutions governing the actions of those involved in specifiable activities or sets of activities. Like all social institutions, they are practices consisting of recognized roles linked together by clusters of rules or conventions governing relations among the occupants of these rules".²⁴ In their influential book *Power and Interdependence*, Joseph Nye and Robert Keohane identify regimes as "networks of rules, norms, and procedures that regularize behavior and control its effects". Their definition is associated with regimes that are shaped by institutional outcomes.²⁵ On the other hand, Duncan Sindal offers a realist view of regime theory. The theory of hegemonic stability "claims that the

²² Powell, Robert. "Absolute and Relative Gains in International Relations Theory." *The American Political Science Review* 85, no. 4 (December 1991): 1303-320.

²³ Fearon, James D. "Bargaining, Enforcement, and International Cooperation." *International Organization* 52.2 (1998): 269-305. Print.

²⁴ Young, Oran R. *International Cooperation: Building Regimes for Natural Resources and the Environment*. Ithaca: Cornell University Press, 1989. Pg 12-13.

²⁵ Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence*. Glenview, IL: Scott, Foresman, 1989. Pg 19.

presence of a single, strongly dominant actor in international politics leads to collectively desirable outcomes for all states in the international system”.²⁶ Charles Lipson says that regimes should be analyzed as outcomes or as institutions “mediating economic and political discourse”.²⁷ Thus, regimes are thought of as an intervening variable, a conduit to cooperation for states. This cooperation can be implicit, and it is on a specific issue. Stephen Krasner has provided the most widely used definition of regimes. In his book *International Regimes*, Krasner defines a regime as “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations”.²⁸ This definition balances other definitions by introducing a loose structure of the regime. Krasner essentially says it is a regime when and if there is convergent behavior among actors around an issue-area. For example, Keohane and Nye suggest two different types of regimes. The first type of regime is made through a treaty or an arrangement of written rules such as General Agreement on Tariffs and Trade (GATT). The second type is founded based on implicit behavior like the postwar American-Canadian relationship.²⁹ Repeated cooperation on an issue-area creates a pattern leading to the social norms and cooperative patterns of behavior. This channel of cooperation is a regime. While realists and liberals agree on the existence of regimes, they continue to disagree about the environment of international and domestic relations that cause regimes.

According to Hasenclever, the realist school of thought focuses on power relations while the liberal school of thought claims regimes arise out of interests.³⁰ Keohane, a functional liberal

²⁶ Snidal, Duncan. "The Limits of Hegemonic Stability Theory." *International Organization* 394, no. 4 (Autumn 1985): 579-614. Accessed April 25, 2013. <http://www.jstor.org/stable/2706716>.

²⁷ Krasner, Stephen D. *International regimes*. Pg. 234.

²⁸ Krasner, Stephen D. *International Regimes*. Ithaca: Cornell University Press, 1983. Pg 2.

²⁹ Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence*. Pg 20.

³⁰ Hasenclever, Andreas, Peter Mayer, and Volker Rittberger. *Theories of International Regimes*. Cambridge: Cambridge University Press, 1997. pg 1-2

theorist, maintains that, in the absence of hegemony, a demand for regimes may increase because of the transaction-reducing role that regimes play in international cooperation.³¹ For liberals, regimes can be maintained or destroyed through interest-based models; but realists, who distrust the efficacy of shared common interests, focus on the interests and capabilities of the hegemon to coerce actors into a regime. In the realist tradition, powerful states act as a privileged group and agree to maintain stability through a set of enforced rules.³² Snidal's theory of Hegemonic stability stresses that the dominant states can provide stable regimes and smaller states will be able to take advantage of the regime by free riding on its benefits.³³ Interest-based theory provides two approaches. The first approach, *contractualism*, examines the ability of actors to cooperate in a condition that bears similarities to a prisoner's dilemma. The second approach, *situation structuralism*, adds to the game-theoretic approach but also takes in a more strategic perspective of the structure of the international environment.³⁴ Joseph Grieco argues that liberals underestimate the anarchical nature of international politics. He argues that the capacity of institutions does not mitigate the overwhelming structural importance of anarchy, which in-turn limits cooperation inter-state relations.³⁵

In the book *Theories of International Regimes*, Andreas Hansenclever provides a table highlighting the differences between the theoretical perspectives. It shows that realist and liberal theories consider actors rational. Hansenclever argues that one of the major differences between

³¹ Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. 244-45

³² Haggard, Stephan, and Beth A. Simmons. "Theories of International Regimes." *International Organization* 41.03 (1987): 491-517. Print.

³³ Snidal, Duncan. "Coordination versus Prisoners' Dilemma: Implications for International Cooperation and Regimes." *The American Political Science Review* 79.4 (1985): 923-42. *JSTOR*. Web. 14 Feb. 2014. <<http://www.jstor.org/stable/1956241>>.

³⁴ Hasenclever, Andreas, Peter Mayer, and Volker Rittberger. "Interests, Power, Knowledge: The Study of International Regimes." *Mershon International Studies Review* 40.2 (1996): 177-228. *JSTOR*. Web. 15 Feb. 2014. <<http://www.jstor.org/stable/222775>>.

³⁵ Grieco, Joseph M. "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism." *International Organization* 42.03 (1988): 485. *JSTOR*. Web. 12 Feb. 2014.

the two theoretical foundations is institutionalism -- that is, the role of international institutions in the regime. Realists see the role of international institutions as weak, while liberalists find a stronger role for institutions in a regime.³⁶ For realists, institutions simply display the configuration of power in the international system. Stephan Haggard and Beth Simmons suggest that liberal regime theory can envision the existence of a regime but they have not been successful in identifying “how or when they will be supplied”.³⁷ In his book *Regime Theory and International Relations*, Stephan Krasner discusses the differences between hegemonic stability theory and liberal functional regimes. Liberal co-operation theory works on altering incentives and overcoming market failure, relying on measuring *absolute* gains rather than *relative* gains. Realist cooperation looks at power distribution and actors’ monopolization of gains; where one actor wins, and the other actor lose.³⁸ Impeding cooperation does not necessarily increase the gain of other nations in the Levant. Contractual liberal regimes put forward a situation that resembles the future interactions in the Levant basin. Actors in the Levant basin face multiple alternatives with different costs and incentives. Keohane suggests that problems of collective action in world politics lead to sub-optimal outcomes even if actors recognize mutual benefit from cooperation. This occurs because actors find that defection is the safest strategy. These costs and incentives as Keohane suggests are best understood by utilizing the prisoner’s dilemma.³⁹ In *After Hegemony*, Keohane argues that if cooperation is to occur without a hegemon, these states must have complementary interests making certain cooperation attainable.⁴⁰ On the other hand, realists like Stephen Krasner maintain that “hegemony of a

³⁶ Hasenclever, Andreas, Peter Mayer, and Volker Rittberger. *Theories of International Regimes*.

³⁷ Haggard, Stephan, and Beth A. Simmons. "Theories of International Regimes."

³⁸ Rittberger, Volker, and Peter Mayer. *Regime Theory and International Relations*. Oxford: Clarendon Press, 1993. Pg. 139-40.

³⁹ Grieco, Joseph M. "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism."

⁴⁰ Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, NJ: Princeton University Press, 1984. Pg243-244.

leading power” must exist for cooperation to work.⁴¹ For Keohane, cooperation without a hegemon requires institutions or foresight by actors. For actors to cooperate without central authority or a hegemon, states must employ the strategy of reciprocity.⁴²

The iterated model is best represented by Robert Axelrod’s experiment of creating computer models to gauge the best strategy that produce cooperative behavior. *The Evolution of Cooperation* engages in an interdisciplinary understanding of cooperation. Axelrod finds that cooperation increases when actors use a Tit-for-Tat strategy. In an IPD situation, Axelrod concludes cooperation can become the dominant trait of the system even without central authority.⁴³ IPD changes the actor’s calculation of a payoff. In addition to calculating immediate payoffs of defection, the actor must also calculate the opportunity cost of future payoffs.⁴⁴ In his article *Explaining Cooperation Under Anarchy* Kenneth Oye illustrates three common conditions of the prisoner’s dilemma. The first condition of cooperation occurs under “Payoff Structure: Mutual and Conflicting Preferences”, which describes how changes in payoffs for actors result in cooperation. The second, “Shadow of the Future: Single-play and Iterated games”, discusses the increase of cooperation with increased interaction. And the third, “Number of Players: Two person and N-person games”, explains the difficulty of cooperation when many actors are interacting in the same game. For cooperation to occur, Oye explains that the players must have mutual preferences, long shadow of the future, and the less the actors, the more likely cooperation.⁴⁵ In the Levant basin, Israel is in a dilemma. It can choose to cooperate with its regional partners for greater economic payoffs but such economic payoffs require political

⁴¹ Frieden, Jeffrey A., and David A. Lake. *International Political Economy: Perspectives on Global Power and Wealth*. New York: St. Martin's Press, 1987.

⁴² Grieco, Joseph M. "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism."

⁴³ Axelrod, Robert M. *The Evolution of Cooperation*. New York: Basic Books, 1984.

⁴⁴ Haggard, Stephan, and Beth A. Simmons. "Theories of International Regimes."

⁴⁵ Oye, Kenneth A. "Explaining Cooperation under Anarchy: Hypotheses and Strategies." *World Politics* 38, no. 1 (October 1985): 1-24. Accessed March 12, 2013. doi:<http://www.jstor.org/stable/2010349>.

compromises. Additionally, the other regional powers are engaged in similar dilemma. If this dilemma can be resolved by the actors recognition of future payoffs, then it is possible to build an issue-area regime on natural gas cooperation. Cooperation in protecting offshore natural gas infrastructure would require security and military cooperation. The nature of natural gas as both political and economic could engage domestic actors allowing for future linkages.

1.4.2 Natural Resources & The Levant Basin

Resources have long played a role in international relations and conflict. In *The Prize*, Daniel Yergin details the history of oil, arguing that it plays an overwhelmingly strategic role in the relations among nations. Yergin details the events that occurred in WWII to explain the strategic implications of oil.⁴⁶ In his most recent book, *The Quest*, Yergin discusses the geopolitical role of oil and renewable industry in the post-Cold War era.⁴⁷ Much has evolved since WWII. Military energy needs have changed; the legitimacy and political strength of national leaders have become tied to the economic welfare of citizens; and modern economies are now built on natural resources, especially petroleum products. In his book *No War for Oil*, Ivan Eland articulates that foreign policy is erroneously focused on securing energy. He argues that the role of the U.S. in securing energy supplies is inefficient and counterproductive.⁴⁸ For natural gas, energy supplies is usually protected by regional partnerships due to the regional implications of natural gas trade. Natural gas has also been traded through regional pipelines rather than shipping lanes. In their book *Oil Wars*, Mary Kaldor, Terry Karl, and Yahia Said argue that attempting to secure the supply of energy by military means does more to disrupt supply than stabilize it. In addition, the authors argue that the nature of geopolitical wars has given way to

⁴⁶ Yergin, Daniel. *The Prize: The Epic Quest for Oil, Money, and Power*. New York: Simon & Schuster, 1991.

⁴⁷ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin Press, 2011.

⁴⁸ Eland, Ivan. *No War for Oil: U.S. Dependency and the Middle East*. Oakland, CA: Independent Institute, 2011.

fierce domestic conflict over energy resources.⁴⁹ The authors of this book differentiate the “old oil wars”, which are rooted in interstate geopolitical conflict, from “new oil wars” -- conflicts that combine a multi-function of greed, petro-states, and geopolitics. These new oil wars, they argue, are “both global and local, and thus the distinction between civil wars and cross-border or internationalized conflict is less relevant”.⁵⁰ These arguments are mostly concerned with oil as the natural resources. While natural gas is similar to oil, there are many differences. These stark differences lie in the monetization of natural gas, which requires heavy infrastructure for transport and storage and future contracts for its sales. Historically, oil has been easier to discover, ship, and sell. In his book *Resource Wars*, Michael Klare argues that the conflict over natural resources will rise due to their scarcity and strategic potential. Klare mentions issues regarding the delineation of EEZs, disproportionate regional distribution of resources, and access to resources as key issues.⁵¹ Klare identifies resource competition as a zero-sum game where conflict rather than cooperation will emerge. Without cooperation in the Levant Basin, Klare’s scenario of conflict is likely to emerge. Some of these key issues have already emerged.

Since the discovery of the Tamar gas field and the release of the USGS report, there has been an increased interest in the Levant Basin. In December 2012, researchers at the Oxford Institute of Energy Studies issued a report titled *East Mediterranean Gas: what kind of a game-changer?* The authors argue that recent discoveries will not reach their export potential due to political issues but will play an important role in local energy markets⁵². Furthermore, James Stocker argues that cooperation is unlikely to emerge for “numerous reasons”.⁵³ Peter E. Paraschos echoes this sentiment in his recent article in the *Mediterranean Quarterly*. He explains

⁴⁹Kaldor, Mary, Terry Lynn Karl, and Yahia Said. *Oil Wars*. London: Pluto, 2007. Pg. 1-2.

⁵⁰ Ibid pg 25.

⁵¹ Klare, Michael T. *Resource Wars: The New Landscape of Global Conflict*. New York: Metropolitan Books, 2001.

⁵² Darbouche, Hakim, Laura Katiri, and Bassam Fattouh. "East Mediterranean Gas – What Kind of a Game-changer?" Oxford Institute for Energy Studies. December 2012.

⁵³ Stocker, James. "No EEZ Solution: The Politics of Oil and Gas in the Eastern Mediterranean."

that “development of Israeli and Cypriot gas resources has aggravated regional rivalries,” but he stresses the important role that these sources could play in diversifying European natural gas supplies from Russia.⁵⁴ The German Marshall Fund of the United States, which is associated with the National Defense University, has published a number of policy briefs concerning the issue of East Mediterranean energy. Brenda Shaffer concludes that the current levels of findings do not make the basin region a game changer in Europe. She also adds that the natural gas finding will help alleviate the tension on the region’s water resources and a reduction in pollution and that governments in the region “seem to overestimate the geopolitical benefits of existing gas finds”, which could lead to conflict over maritime borders.⁵⁵ Jeffrey Mankoff disagrees, concluding that the new gas discoveries may serve to decrease the dependence of the EU on Russian natural gas and help with the ongoing sovereign debt crises. He adds that the United States welcomes the new gas discovery but has expressed some reservation due to the potential escalation of conflict.⁵⁶ Tullio Scovazzi explains that, while the new discoveries could bring great advantages to Israel, Cyprus, Lebanon, and the Palestinian territories, maritime border disputes could cause escalating tensions and discourage international companies from developing the gas fields.⁵⁷ Michael Koehler argues that the EU has great stake in Eastern Mediterranean resources, adding that it should play a huge role in facilitating cooperation. Koehler argues that the Eastern Mediterranean discoveries have the potential to serve the energy security interests of Cyprus (an EU member), Israel, and the Palestinian Authority, EU’s energy security, stability in

⁵⁴ Paraschos, Peter. "Offshore Energy in the Levant Basin: Leaders, Laggards, and Spoilers." *Mediterranean Quarterly* 24, no. 1 (Winter 2013): 38-56.

⁵⁵ Shaffer, Brenda. "Energy Resources and Markets in the Eastern Mediterranean Region." German Marshall Fund of the United States. June 11, 2012. Accessed January 23, 2013. <http://www.gmfus.org/archives/energy-resources-and-markets-in-the-eastern-mediterranean-region/>.

⁵⁶ Mankoff, Jeffrey. "Resource Rivalry in the Eastern Mediterranean: The View from Washington." German Marshall Fund of the United States. June 11, 2012. Accessed January 23, 2013. <http://www.gmfus.org/archives/resource-rivalry-in-the-eastern-mediterranean-the-view-from-washington/>.

⁵⁷ Scovazzi, Tullio. "Maritime Boundaries in the Eastern Mediterranean Sea." German Marshall Fund of the United States. June 11, 2012. Accessed January 23, 2013. <http://www.gmfus.org/archives/maritime-boundaries-in-the-eastern-mediterranean-sea/>.

the region, and Turkey's future EU candidacy.⁵⁸ In a National Defense University report, Dr. Denise Natali discusses Israel and Cyprus' inability to export gas via Turkey because of the political tensions. She calls on the US and the EU to assist Israel and Cyprus in developing mature natural gas markets and infrastructure for a possible diversification of EU natural gas imports from the Eastern Mediterranean. She also outlines the challenges of cooperation as both "technical and political".⁵⁹ Alternatively, the Turkish political elite is apparently planning along geopolitical lines that Turkey becomes an energy hub, as Einar Wigen describes it.⁶⁰ Yet, in a paper prepared by the Arab Center for Research & Policy Studies, the authors argue that an Israeli-Cypriot-Greek alliance is emerging to exploit natural gas in the Eastern Mediterranean--and thus changing the strategic balance of powers in the region.⁶¹ On the other hand, Mamdouh Salamah argues in a World Bank working paper that conflict is avoidable due to "asymmetry of military power between Israel and its neighbors or to membership of NATO or the European Union".⁶² In a working paper published by an Italian think tank, Simone Tagliapietra concludes that Israeli exports remain "uncertain", but that Cyprus, notwithstanding threats from Turkey, is likely to export natural gas through tankers.⁶³

The literature on the Levant Basin captures the different policy objective of the various countries involved. It also explores the potential ramifications of these discoveries. However, the

⁵⁸ Koehler, Michael. "Gas Discoveries in the Eastern Mediterranean: Implications for the European Union." German Marshall Fund of the United States. June 11, 2012. Accessed January 23, 2013. <http://www.gmfus.org/archives/gas-discoveries-in-the-eastern-mediterranean-implications-for-the-european-union/>.

⁵⁹ Natali, Denise. "The East Mediterranean Basin: A New Energy Corridor?" Institute For National Strategic Studies. July 17, 2012. Accessed March 15, 2013. <http://www.dtic.mil/dtic/tr/fulltext/u2/a570233.pdf>.

⁶⁰ Wigen, Einar. "Pipe Dreams or Dream Pipe? Turkey's Hopes of Becoming an Energy Hub." *Middle East Institute* 64, no. 4 (Fall 2012): 598-612.

⁶¹ "The Geopolitical Impacts of the Discovery of Natural Gas in the Eastern Mediterranean Basin." Arab Center for Research & Policy Studies. December 19, 2012. Accessed April 23, 2013. <http://english.dohainstitute.org/release/b69fb5e1-b575-4ddf-a792-3aae0c3d189c>.

⁶² Salameh, Mamdouh G., Natural Gas Flares Up Over Eastern Mediterranean (July 18, 2013). USAEE Working Paper No. 13-130. Available at SSRN: <http://ssrn.com/abstract=2295559> or <http://dx.doi.org/10.2139/ssrn.2295559>

⁶³ Tagliapietra, Simone. "Towards a New Eastern Mediterranean Energy Corridor? Natural Gas Developments Between Market Opportunities and Geopolitical Risks." *EconPapers*. March 02, 2013. Accessed November 12, 2013. <http://econpapers.repec.org/RePEc:fem:femwpa:2013.12>.

literature does not explore the potential for cooperation and the feasibility of regime building around an issue-area. Authors discussing the Levant basin have focused on internal changes to domestic markets resulting from the new energy finds and the new energy partnerships that can cause a shifting in the balance of power in the region. But they do not seek to understand how potential cooperation between actors could create can create regimes and how defection from cooperation can serves as a pretext for future conflict. This thesis will add to the literature by employing international liberal international regime theory and examining the existence of reciprocity between actors through the IPD model.

Chapter 2: Identifying foundational Regimes

This research is designed to inquire about the feasibility of cooperating between Israel and regional powers on natural gas export strategies. For example, cooperation between Turkey and Israel on natural gas exports could induce Cypriot and future Lebanese discoveries to connect to the new infrastructure. The increased cooperation between the various countries would lead to greater political-military dialogue that would decrease political tension and resolve territorial disputes. This thesis investigates the likelihood of implicit regime formation. Building an interest-based multilateral regime requires compelling economic incentives to outweigh political uncertainties. Can economic incentives and interests outweigh the most extraordinary level of political conflicts? If no cooperation is achieved, mistrust and conflicts of territorial integrity can intensify disagreement in the region leading to a heightened level of insecurity.

2.1 Political Economy Regimes & The Levant

In *Producing Security*, Stephan Brooks suggests that regional trade agreements help facilitate frequent meetings and greater security integration. Brooks analyzes Latin America's trade agreement, the MRCOSUR, to examine the spillover effects of economic cooperation. He finds that cooperation to attract economic investment led to the decline of the security rivalry between Brazil and Argentina.⁶⁴ As nations seek interest-based regimes, they increase the level of cooperation in an issue area. These issues often require security coordination. Politico-military coordination results in an increase in the level of trust among partner countries. Meetings between various leaders increase linkages, which results in greater cooperation across multiple sectors. As with Latin America, historical rivalries have existed between states in the Levant.

⁶⁴ Brooks, Stephen G. *Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict*. Princeton, NJ: Princeton University Press, 2005.

Regional rivalries often occur between regional powers. Successful regimes must be brought to bear by deeply cooperative regional powers. Enforcing regimes on other states requires willingness from strong states and incentives for smaller ones.

Regimes, specifically political economy regimes, often exist to cut transaction costs. Keohane suggests that regimes facilitate economically efficient cooperation. Regimes morph into existence after cooperative behavior.⁶⁵ Since our case study contains many alternatives for Israeli exports, cooperation is more likely with the country that has the most financially efficient export route. Each export option must be weighed against the other options. In analyzing the IPD models, the other export routes signify the opportunity cost of cooperation. Other routes act as alternative or defection routes. But this thesis is not only concerned with natural gas exports, this thesis attempts to analyze the political feasibility of export routes that could result in political linkages.

Regime formation must be accompanied with institutional building. In other words, a regime evolves around a set of expectations or a framework that awards cooperation and punishes defection. According to Oran Young “institutions are practices composed of recognized roles coupled with sets of rules or conventions governing relations among the occupants of these roles”.⁶⁶ Institutions are simply an arrangement by two or more actors. This arrangement is repeated over-time causing it to evolve into an expected behavior. Actors realizing the rewards of cooperation in anarchical community create behavioral expectations. If expectations converge between various actors, then it can be considered an issue-area regime. This behavior could be in the form of a structured organization or more loosely defined a set of expected behavior. Axelrod pointed out that the evolution of cooperative behavior emerges from the rational behavior of

⁶⁵ Hasenclever, Andreas, Peter Mayer, and Volker Rittberger. *Theories of International Regimes*.

⁶⁶ Young, Oran R. "International Regimes: Toward a New Theory of Institutions." *World Politics* 39, no. 1 (October 1986): 104-22. doi:10.2307/2010300.

reciprocity.⁶⁷ This thesis does not predict the creation of an organization in the Levant. Instead, I examine the likelihood of cooperation in the Levant in the midst of a natural gas boom that could cause conflict on multiple levels. Cooperation predates regime formation. However, not all cooperation will lead to regimes. Cooperation between some states could produce a negative outcome for other nations (i.e. increased conflict). A regime is more than cooperation, it is essentially an institution that has the potential to increase peacemaking and facilitate dialogue among all regional parties. But a regime must start with cooperation between actors that have the capacity to induce regional actors to cooperate.

This thesis presents three alternative foundational regimes. Israel and the other three countries in question, Greece, Turkey, and Egypt, have significant power politically and militarily in the Eastern Mediterranean. For a region with much political antagonism and conflict, Israel has a peace agreement with all three countries. The peace agreements facilitate institutional formation. After exploring the three regime bases, I conclude by ranking them based on economic efficiency, political relations, and regime formation possibility. There are two primary conditions to assess the feasibility of regime formation in the Levant Basin. The first condition is the feasibility of export potential. Does it make economic sense to export natural gas with this partner? The second goal is the potential of cooperation to morph into an actual regime. Which cooperating partner holds the political power and legitimacy to create a political regime in the Levant?

2.2 Natural Gas: A regime catalyst?

Unlike other fossil fuels, the resource of natural gas has the potential to create long-term cooperation. Natural gas is a form of fossil fuel that produces significantly less carbon dioxide

⁶⁷ Axelrod, Robert M. *The Evolution of Cooperation*.

than coal and oil.⁶⁸ It can be used to generate energy in many forms such as electricity and transportation.⁶⁹ To make it more efficient for transportation and storing, natural gas is often liquefied; the by-product of liquefaction is referred to as LNG.⁷⁰ The pricing of natural gas occurs in million British thermal unit or mmbtu. According to BP statistical data the prices of natural gas vary by region. In 2012, the price of natural gas in North America was US\$2.76/mmbtu according to Henry's Hub. In Europe, the price was US\$9.46/mmbtu according to UK Heren NBP index. And in Asia, the price stood at US\$16.75/mmbtu according to Japan's LNG receiving facilities.⁷¹ Global pricing of natural gas is very important in understanding the economic nature of the investment. Investment in natural gas infrastructure requires a long-term horizon planning, which makes political risk consideration as vital as economic deliberation. The pricing of natural gas facilitates regional cooperation because of the added costs of liquefaction and handling. Additionally, pre-contracts with import markets are a requisite for sizable exports. This makes natural gas the preeminent resource for cooperation between regional producer and regional consumer.

2.2.1 EU-Russia Natural Gas Regime

The EU-Russia partnership serves as a prominent example of a natural gas regime. The cooperative relation have not been smooth but is an example that reflects the role of natural gas linking conflicting parties on interest-based cooperation. Siberian natural gas started flowing in Western Europe since 1968. For Russia and the Soviet bloc, natural gas served as a placeholder for planning the Soviet Union's command economy.⁷² It was not until 2000 that the EU and

⁶⁸ "Overview of Natural Gas." NaturalGas.org. Accessed March 23, 2013. <http://naturalgas.org/overview/overview.asp>.

⁶⁹ *ibid*

⁷⁰ *ibid*

⁷¹ "Natural Gas Prices." BP. Accessed September 23, 2013. <http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy-2013/review-by-energy-type/natural-gas/natural-gas-prices.html>.

⁷² Dickel, Ralf, and Kristen Westphal. "EU–Russia Gas Relations: How to Manage New Uncertainties and Imbalances." - *SWP*. German Institute for International and Security Affairs, Apr. 2012. Web. 14 Feb. 2014.

Russia signed a comprehensive agreement on natural gas cooperation. The EU-Russia energy dialogue served as the institutional backbone of the natural gas cooperation between the two actors. The purpose of the agreement was to create ongoing discussions to enhance communication between the two partners. The main goal of this communication was to facilitate investment opportunities for Russian and European energy firms, create fair investment laws, and improve EU access to Russian energy infrastructure.⁷³ However, the energy dialogue has not been very effective. Russian-EU natural gas relations faced a number of obstacles. In 2006 and 2009, Russia used natural gas as political instrument to bully transit and former Soviet states such as Ukraine. This has caused Europe to reexamine its heavy dependence on Russian natural gas. Additionally, these crises have caused Europe to plan new routes for energy rather than relying on Ukraine as a transit state.⁷⁴

Russia and the EU have attempted to reignite a cooperation pattern by forming the Gas Advisory Council, which engages in short-term and long-term dialogue to enhance natural gas infrastructure and market organization.⁷⁵ The two entities have also proposed engaging in cooperation on reducing carbon emissions by improving green technology.⁷⁶ There are many factors that have caused the natural gas partnership between the EU and Russia to deteriorate. Among these reasons are nationalization of the energy sector in Russia, EU enlargement in 2004 and 2007 into Russian sphere of influence, and increasing availability of LNG on the market.⁷⁷ There are also tremendous shifts in global consumption of natural gas causing higher demand for

⁷³ Palinkas, Peter. "European Energy Security: Opportunities and Problems for Cooperation EU-Russia." *Internationalization and Economic Policy Reforms in Transition Countries*. Berlin: Springer, 2005. 175-85. Print.

⁷⁴ Cameron, Fraser. "The Politics of EU-Russia Energy Relations." *The International Relations and Security Network*. Eurussia Centre, 2009. Web. 12 Feb. 2014. <<http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?ots591=0c54e3b3-1e9c-be1e-2c24-a6a8c7060233&lng=en&id=105732>>.

⁷⁵ EU Dickel, Ralf, and Kristen Westphal. "EU-Russia Gas Relations: How to Manage New Uncertainties and Imbalances."

⁷⁶ Cameron, Fraser. "The Politics of EU-Russia Energy Relations."

⁷⁷ Neuman, Marek. "EU-Russian Energy Relations after the 2004/2007 EU Enlargement: An EU Perspective." *Journal of Contemporary European Studies* 18.3 (2010): 341-60. Print.

Russian natural gas in Asia. But the EU and Russia have continued their interdependence on natural gas. The EU continues to be reliant on Russian natural gas, and Russian natural gas revenues are reliant on European payments.

The nuances of the bilateral relations have changed and transitioned but cooperation continues. Moscow overreached previously by using natural gas as political instrument. In return, Brussels sought to punish Russia by liberalizing its market and looking for alternatives. However, both sides realize that no other regional market can supply European energy needs and Russia's gas production is best channeled to the "good" EU customer. Despite the unhealthy episodes, natural gas cooperation has produced the effects of a regime. The two sides hold summits frequently in which they coordinate on protecting infrastructure and create rules for bilateral investments. Natural gas is the issue-area of interest-based cooperation between two sides with historically conflicting relations. It has acted throughout the years as a base for dialogue and interactions between the political and economic sectors of both entities. It has also created a political and economic framework for bilateral relations and has been used to alleviate the suspicions between the two entities.

2.3 Israel's Export Options

For Israel, options for exporting of natural gas vary considerably. Variance accounts for multiple factors such as cost of exploration, gas available for exports, and distance traveled for exports. Israel has a number of options available to it; these options not only vary in economic cost but also vary in political risk. As highlighted by the Washington Institute, there are three credible options for exporting natural gas. The first option is liquefying gas and using tankers to ship it. The second is to generate electricity for export. And the third option is to export through

pipelines.⁷⁸ Using one option or a combination of options will be highly dependent on export volumes and export destinations. According to the institute “the usual rule-of-thumb for choosing between a pipeline and LNG option is that LNG tankers become commercially viable for distances greater than 3,000 miles (4,800 kilometers). In the context of the Eastern Mediterranean discoveries, this suggests that future European customers would be best supplied by pipeline while LNG tankers would provide for Asian customers”.⁷⁹ Pricing and shipping elements are studied closely in order to chart the best possible cooperation and its trade-offs. In the following section of this chapter, I will survey each option separately.

2.3.1 Greek Route

I will explore two separate Greek routes. Complexities of the Greek routes are both technical and commercial. The first route, would involve a pipeline to Athens connecting Israeli gas to the European grid. The pipeline would require piping at 2,000 meters of depth for more than 1,000 km.⁸⁰ Uncertainty about future production and the technical challenges render such investment inefficient. The second route would involve Cyprus. Cyprus has plans to connect Aphrodite to an LNG facility off its coast in the city Vasilikos. To create economies of scale, Aphrodite needs to be connected to Israeli fields, Leviathan and Tamar. Because of the significant infrastructure development the fields need to be connected for the investment to be conceivably viable. An LNG facility off the coast of Cyprus is estimated around US\$9 to US\$12 billion depending on the number of LNG trains; the number of trains determine the capacity of the plant. It would also involve a pipeline connecting the Leviathan to Aphrodite and Aphrodite to the LNG plant. The commercial viability of an LNG plant is uncertain at best. The high costs of such a plant without

⁷⁸ Henderson, Simon. "Natural Gas Export Options for Israel and Cyprus." Washington Institute. September 13, 2013. Accessed October 5, 2013. <https://www.washingtoninstitute.org/policy-analysis/view/natural-gas-export-options-for-israel-and-cyprus>.

⁷⁹ *ibid*

⁸⁰ Economides, Michael J., and Nicolas Mitsos. "Israel's Options for Monetizing Its Vast Reserves of Offshore Natural Gas in the Mediterranean Predicament." SEA NG. 2011. <http://www.coselle.com/resources/news/israel's-options-monetizing-its-vast-reserves-offshore-natural-gas-mediterranean-predicament>.

guaranteed high volumes make it an unlikely option. In addition, Turkish Northern Cyprus along with the assistance of the Turkish Navy would react negatively.

Israeli exports through Greece and Cyprus are a political minefield. As the ties between Israel and Turkey have deteriorated, Greece, Turkey's historical rival, has stepped to the plate. Since the diplomatic rupture between Israel and Turkey in 2010, Israel has conducted a yearly military exercise with Greece. In 2013, the naval exercise, dubbed Noble Dina, included U.S. forces. The joint forces flexed their naval muscles in protecting futuristic natural gas facilities off their respective shores.⁸¹ For Turkey, these naval exercises represent a shift in their perceived balance of power in the region. Historically Greece had a pro-Arab stance and was somewhat hostile to Israel. According to Vassilos Damiras at the Research Institute for European and American Studies, Greece was heavily reliant on Arab countries for oil and long-time Greek PM, Georgios Papandreou, had strong relations with the PLO leader Yasser Arafat.⁸² Israeli cooperation with Greece is likely to inflame tensions in the region. Turkey is especially wary of Israeli-Greek cooperation. While it is a feasible political alliance between the two countries, regionally it could spark suspicion and tension. The likelihood that an Israeli-Greek alliance will form into a regime is almost non-existent. In addition to triggering a Turkish-Greek-Israeli crisis, Greece has no lobbying powers among countries in the region. The country is economically weak and has almost no leverage on Levant states such as Syria, Lebanon, or the Palestinians.

2.3.2 Turkish Route

A pipeline project between Israel and Turkey has also been discussed. Talks have emerged

⁸¹Cropsey, Seth. "Will U.S. Choose the Right Side in the Eastern Mediterranean?" RealClearWorld. July 3, 2013. Accessed August 23, 2013. http://www.realclearworld.com/articles/2013/07/03/eastern_mediterranean_gas_israel_turkey_cyprus_greece_obama_erdogan_105295.html.

⁸² Damiras, Vassilios. "Greece and Israel in an Era of Strategic Friendship and Cooperation." Research Institute of European and American Studies. October 8, 2011. Accessed June 8, 2013. <http://www.rieas.gr/research-areas/global-issues/middle-east-studies/1604-greece-and-israel-in-an-era-of-strategic-friendship-and-cooperation.html>.

between Israeli Delek Company and Turkish Zorlu Holding about constructing a pipeline at a cost of \$2 billion.⁸³ Turcas Holding, an Istanbul based company, has offered to build a pipeline between Turkey and Israel at cost of \$2.5 billion. Turcas offered that it would bear any cost arising from political delays.⁸⁴ But to be clear, without Turkish-Cypriot peace progress the project will not proceed. Any pipeline built from Israel to Turkey would have to go through Cypriot waters. Cyprus will reject such a plan and its sovereignty would be protected as a member of the EU. Turkish Energy minister summoned it up recently by saying “The commercial feasibility will only be possible after the political feasibility is established”.⁸⁵

The Turkish route is full of political obstacles. In addition to Cyprus, Israeli-Turkish relations have been rather cool. Until 2010, Israel and Turkey had reasonably warm relations. However, in 2010, Israeli commandos intercepted Turkish flotilla *Mavi Marmara* in an operation that killed several Turkish citizens. Throughout the terms of Islamist Turkish PM Tayib Erdogan and rightist Israeli PM Benjamin Netanyahu, disagreements and accusations became the new norm. In March 2013, American President Barack Obama convinced Netanyahu to apologize to Erdogan over the *Marmara* incident. But relations between the two governments remain tense and non-cordial.

Although current political obstacles are many, the two countries had cordial relations. Pleasant relations have continued to exist between business establishments in both countries. These relationships could be very important in facilitating any form of economic agreement.

⁸³ "Slow Progress in Israel-Turkey Talks Threatens Gas Pipeline Plan." UPI. October 2, 2013. Accessed January 23, 2014. <http://www.istockanalyst.com/business/news/6592621/slow-progress-in-israel-turkey-talks-threatens-gas-pipeline-plan>.

⁸⁴ "Turkey Eyes New Talks to Solve Cyprus Crisis." POLITICS. October 10, 2013. Accessed October 26, 2013. <http://www.hurriyetdailynews.com/turkey-eyes-new-talks-to-solve-cyprus-crisis.aspx?PageID=238&NID=55992&NewsCatID=338>.

⁸⁵ Ant, Onur. "Erdogan's Israel-Bashing Imperils Turkey's Energy Hub Dreams." BloombergBusinessweek. August 22, 2013. Accessed September 14, 2013. <http://www.businessweek.com/news/2013-08-21/erdogan-s-israel-bashing-puts-turkey-energy-hub-dreams-in-peril>.

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Also, the two countries navies are considered the best-equipped navies in the region. Naval capability will play a large role in offshore activities. Countries such as Lebanon or Cyprus cannot protect their national interests through force since their military capabilities are weak and their naval forces are non-existent.

2.3.3 Egyptian Route

Egypt, a former natural gas supplier of Israel, can reverse the direction of existing infrastructure that supplied Egyptian gas to Israel. From Arish-to-Ashkelon, the natural gas pipeline faces a myriad of security issues. Current instability in the Sinai put future supplies at risk. The route is also tainted by political and business corruption. Until 2012, Egypt was Israel's largest supplier of natural gas for electricity production. According to officials, reasons for halting supply emerged from a business dispute rather than a political one.⁸⁶ Contrary to official statements, political tensions and exacerbated security risks in the Sinai played a strategic role in ending the agreement between the two countries. The Mubarak era deal was highly publicized in Egypt to be corrupt because of the substantial price accommodation offered to Israel. More recently, repeated bombings by militants of the pipelines increased security costs and risk premium.

While Egypt has large reserves of natural gas, the country's insecurity, lack of re-gasification infrastructure, and unabated subsidized demand have caused the country's previous natural gas supply to dwindle. Israel could supply Egypt with natural gas at some form or another. In addition, Egypt's liquefaction plants often operate on low capacity. Israeli natural gas could effectively increase the efficiency of the plants. LNG from the Damietta or Idku plant could be sent to both Asian and European markets. Such commercial plan is the most efficient because of low infrastructure cost and diverse market accessibility. But the volatile political

⁸⁶Sanders, Edmund. "Egypt-Israel Natural Gas Deal Revoked for Economic Reasons." Los Angeles Times. April 23, 2012. Accessed May 20, 2013. <http://articles.latimes.com/2012/apr/23/world/la-fg-egypt-israel-oil-20120424>.

situation in Egypt and the rise of hyper-nationalism could prevent political actors from agreeing to an unpopular arrangement.

2.3.4 Defection

The last export option would be for Israel to ditch cooperation with Turkey, Greece, and Egypt. Firms in control of the field could build an LNG station. Since there is very little space on land, Israel has proposed building a floating Liquefied Natural Gas (FLNG) station. The South Korean Company KOGAS and Inpex have built the only FLNG station in the world; the station is being setup in Australia by Royal Dutch Shell.⁸⁷ No specific dollar amount has been ascribed to the station but current estimates range between US\$10.8 and US\$12.6 bn.⁸⁸ To make it a profitable endeavor, Israel would have to ship through the Suez Canal to Asian markets. While this is legal under the peace treaty with Egypt, the threat of inspecting Israeli ships can be unattractive for investors. Israel would be completely reliant on Egypt's political turbulence and the safety of the Suez Canal. This option would not result in a regime. It is unlikely that simply allowing Israeli ships safe passage in international passage-way would allow both countries to build the institutional behavior of a regime.

2.4 Conclusion

To assess the viability of the foundational regime bases, we have determined three factors. These factors are economic efficiency, political relations, and regime formation possibility. In terms of economic efficiency, Greece is clearly the worst route while Egypt and Turkey stand on solid financial footing. The Greek Cypriot route remains possible under certain conditions. Egypt's route is currently not protected: if the Arish-Ashkelon line can be secured or build a new

⁸⁷ "GALLERY: Steel Cutting for Prelude FLNG Begins in South Korea." Offshore Energy Today. October 18, 2012. Accessed January 3, 2013. http://www.offshoreenergytoday.com/steel-cutting-for-prelude-flng-begins-in-south-korea/#.Utb_H2QW280.

⁸⁸ "Shell's Record-breaking Prelude Takes to the Water." BBC News. December 4, 2013. Accessed January 1, 2014. <http://www.bbc.co.uk/news/technology-25213845>.

undersea pipeline connecting the fields to Egypt, which would make the Egyptian route financially perfect. The proximity of Egypt's LNG stations would allow Israel to ship its natural gas through the Suez Canal to Asian markets; energy investors would find it very lucrative and efficient. Turkey's option is also very efficient. The option is relatively cheap because it requires a smaller investment than building an LNG terminal. It would allow Israel to send its natural gas to large Turkish and European markets that rely heavily on Russian gas.

The second factor conditioning a possible regime is current political relations. Currently, Israel enjoys excellent relations with Greece. The two countries have completed military exercises and sought to increase energy cooperation. Israeli relations with Turkey have deteriorated. While Israel and Turkey have a number of shared interests, the two countries lukewarm relations have caused many changes to their historic security cooperation. I rank Egypt third for various reasons. Egypt and Israel have had a peace treaty since 1979 but social, economic and political normalization continue to be virtually non-existent. Egypt's current political climate is volatile and unpredictable. In addition, cooperation with Israel after the Arab Spring could be against the wishes of the revamped Egyptian electorate. These combinations make for an unlikely political ally in Egypt but historical energy cooperation between the two countries leave the door open for a possible partnership.

The third consideration, the most essential part of our thesis, is the actual feasibility of building a regime; meaning the ability of bilateral cooperation to create potential linkage with neighboring countries. In terms of regime feasibility, Turkey and Egypt have the most promising potential. Cooperation with Turkey would have the effect of bringing Cyprus to the table and increasing the linkages in the Euro-Mediterranean partnership. In Addition, greater cooperation between the Israeli and Turkish navies is very important for deterring confrontation and

decreasing the security dilemma between the two powers. Egypt, Israel's first peace partner in the Arab world, continues to have political clout over neighboring Arab countries. Egypt can expand its gas commitments to Jordan by cooperating with Israel. These arrangements would require further political cooperation potentially causing a spillover effect. Cooperation with Greece, a significant power in the Eastern Mediterranean, will cause regional tension rather than build linkages of cooperation. A pipeline to Athens would not offer substantial infrastructure for other countries in the region. For instance, it would be unwise for future Lebanese discoveries to connect to Athens but this is possible with Turkish discoveries. Cooperating with Cyprus without Turkish consent would also produce further ramifications for Greece, Cyprus and Israel. Turkey would look at such cooperation with suspicion.

Thus, Israel is presented with four credible options out of the five options laid out. I will no longer discuss the Greek option of building a pipeline to Athens because it is not financially feasible. The two options that are both financially feasible and have regime potential are Turkey and Egypt. The first option examined in this thesis is a pipeline through Cyprus maritime territory to Turkey resulting in a formation of linkages and territorial settlements. The second option is to use existing pipeline or build an undersea pipeline to Egypt. The pipeline could also feed into Egypt's LNG terminals. The third and fourth option would be to defect from either of these arrangements by building an LNG plant with Cyprus or in Israel. This thesis will investigate the dilemma of common interests in the first and second options. Then, I suggest using an IPD model to envision a solution to this dilemma of common interests.

Chapter 3: Historical Relations

This chapter investigates the historical bilateral relations between the two separate regime-sets. The chapter looks at the bilateral relations throughout modern history to understand the factors that lead to cooperation. My intention is not to dissect the historical bilateral relations of Turkey and Israel or Egypt and Israel but to identify patterns of political cooperation in an overview of the history of the respective relations. The environment of historical cooperation is very important for analyzing the feasibility of future cooperation because nations tend to have stable and consistent policy overtime.⁸⁹ This consistency is the result of the geographic and historical nature of the state. The first section of the chapter is intended to examine Turkish-Israeli relations and their cooperation. The second section of this chapter examines Egyptian-Israeli relations and their cooperation.

3.1 Turkish-Israeli Cooperation

In 1949, Turkey officially became one of the few Muslim countries to recognize Israel. Since then, relations between the two countries have been both friendly and adversarial. Many scholars point to the mid 1990s until mid 2000s as the golden age of Israeli-Turkish cooperation. The first security cooperation pact was signed in 1996. Subsequently, Israel supplied Turkey with cutting-edge military technology. Joint military exercises displayed the strong commitment to security cooperation between the two militaries.⁹⁰ On the economic front, Israel and Turkey signed a free-trade agreement in 1996 to increase bilateral trade and tourism.⁹¹ According to the

⁸⁹ Hasenclever, Andreas, Peter Mayer, and Volker Rittberger. *Theories of International Regimes*. pg 23.

⁹⁰ Minasian, Sergey. "The Turkish-Israeli Military and Political Co-Operation and Regional Security Issues." *Iran and the Caucasus* 7, no. 1 (2003): 309-26. Accessed September 25, 2013. doi:10.1163/157338403X00169.

⁹¹ Altunisik, Meliha. "The Turkish-Israeli Rapprochement in the Post-Cold War Era." *Middle Eastern Studies* 36, no. 2 (2000): 172-91. doi:10.1080/00263200008701313.

Turkish Ministry of Economy, combined trade in 2012 has reached US\$4 billion.⁹² While trade has continued to flourish, political relations have become strained since the mid 2000s. As we look at the historical changes of Turkish-Israeli relations, we recognize a distinct historical pattern. This pattern suggests that relations are likely to warm-up again.

3.1.1 Turkish-Israeli Relations

Scholars have provided two analytical concepts for understanding Israeli-Turkish relations. The first concept examines the multi-dimensional identity of Turkish political body. The second concept is grounded in geopolitical and structural analysis of Israel and Turkey. It is clear that Turkey's geopolitical position has influenced the state's identity and vice-versa. After World War One (WWI), Turkey viewed the Soviet Union as its historical rival and a strategic threat. Turkey's nationalist architects viewed modernity as the best path for advancing Turkish society. Advancement and modernity were closely associated with close relations with European powers. However, the Turkish population did not become westernized overnight, meaning that Turkish people exhibited a great deal of commonalities with Muslim Arabs and shared many of their political and social values. Leading scholars like Hakan Yavuz and Mujeeb R. Khan point "to the political and ideological aims of her [turkey] leaders have imbued her foreign policy and indeed much of the very fabric of the country with a strong sense of duality".⁹³ This contradiction has played itself out on the Turkish-Cypriot conflict, the domestic Kurdish minority, and the Israeli-Turkish relationship.

Hakan Yavuz and Mujeeb Khan break Israeli-Turkish relations into separate periods. The first period, 1947-1964, the authors explain that Turkish foreign policy was dominated by

⁹²Turkey. Ministry of Economy. *Republic of Turkey Ministry of Economy*. Accessed October 23, 2013. <http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&country=IL®ion=0>.

⁹³ Yavuz, M. Hakan, and Mujeeb R. Khan. "TURKISH FOREIGN POLICY TOWARD THE ARAB-ISRAELI CONFLICT: DUALITY AND THE DEVELOPMENT (1950 - 1991)." *Arab Studies Quarterly* 14, no. 4 (Fall 1992): 69-94. Accessed November 25, 2013. <http://www.jstor.org/stable/41858030>.

strategic planning of becoming part of the Western sphere of power. The period from 1964-1979, exemplified a time of reassessment of national interests after on the Cypriot dispute, Western partners isolated Turkey. The third period, 1979-1988, was driven by Ankara's weak economic position, especially the balance of payments crisis caused by elevated energy prices, causing a Turkish to pivot towards the Arab east.⁹⁴ Yavuz and Khan argue that Israeli-Turkish relations respond to the changes in Turkish formulation of national interest. They also argue that national interests is largely defined by identity of the actors involved and democratization will lead to a pro-Arab policy because most Turks identify themselves more with Islam than secular European traditions.⁹⁵ Hakan interprets security cooperation between Israel and Turkey in the 1990's as a push back from the Kemalist military establishment against the increasing Islamization of Turkish elected politicians.⁹⁶

The second concept in Turkish foreign policy towards Israel is its geographical position. Turkey's foreign policy after the end of WWII was heavily dominated by suspicions of Moscow's Soviet leadership.⁹⁷ To combat the Soviet threat, Turkey turned west. Israel was as an ally of the West, thus, Turkey recognized Israel as both a strategic ally against Soviet influences in the region and to enhance its relations with the West. The Soviet threat materialized in Iraq and Syria; which are two common foes of Israel and Turkey. After 1991, Israel felt threatened by Iraq under a Saddam Hussein and Syria's under Hafez Al-Assad and his son. Threats on Turkey originated from the Kurdish communities living in Iraq and Syria. The two nations found mutual gain in military and intelligence cooperation.

George Gruen, a geopolitical scholar, argues that Turkey's early recognition of Israel was

⁹⁴ *ibid*

⁹⁵ *Ibid.*

⁹⁶ Yavuz, M. Hakan. "Turkish-Israeli Relations Through the Lens of the Turkish Identity Debate." *Journal of Palestine Studies* 27, no. 1 (Autumn 1997): 22-37. Accessed November 18, 2013. <http://www.jstor.org/stable/2537807>.

⁹⁷ Bolukbasi, Suha. "Behind the Turkish-Israeli Alliance: A Turkish View." *Journal of Palestine Studies* 29, no. 1 (Autumn 1999): 21-35. Accessed November 13, 2013. <http://www.jstor.org/stable/2676428>.

driven by its necessity to gain American political and commercial support. In turn, Israel also sought support of non-Arab states on the periphery such as Turkey, Ethiopia, and Iran.⁹⁸ The geopolitical necessities of both countries caused their relationship to overlap. Alain Gresh cites the importance of Syrian relations on Israeli-Turkish cooperation. Gresh argues that after the Cold war, Turkey did not foresee an enhancement to its relations with Syria. With the political cover of the Oslo accords, military cooperation and trade with Israel came with little risk and great reward.⁹⁹ Turkey was also never satisfied with its relations with the Arab world. Turkish rapprochement with the Arab world in the 1980s quickly faded because of the decline of energy prices in the 1990's and lackluster support on the Cypriot dispute.¹⁰⁰ Turkish-Israeli cooperation soared during the 1990s, which led to increasing political, commercial, and cultural ties. Making the relationship one of the most strategic for both countries.

Israeli-Turkish relations have taken a dive for the worst since mid 2000. The rift in ties reached a pinnacle after Israeli commandos stormed Turkish freedom flotilla bound for Gaza. Our two concepts present two different reasons for the change. The identity concept explains, that the change of relationship due to the rising strength of the Islamist AKP in Turkey led by PM Erdogan. The geopolitical concept explains, that the decreasing threats from Iraq, especially the Kurdish autonomous area, and friendly relations with Damascus are responsible for the rift. The two concepts can overlap especially when discussing the national interests of Turkey. The dominance of the Islamist parties in Turkey has produced different set of national interests guiding the country's policies. But the pattern that has progressed over the years regarding Syria and Iraq cannot be ignored. The more threatening Turkish borders with Syria and Iraq the higher

⁹⁸ Gruen, George E. "Dynamic Progress in Turkish-Israeli Relations." *Israel Affairs* 1, no. 4 (1995): 40-70. Accessed September 23, 2013. <http://dx.doi.org/10.1080/13517129508719351>.

⁹⁹ Gresh, Alain. "Turkish-Israeli-Syrian Relations and Their Impact on the Middle East." *Middle East Journal* 52, no. 2 (Spring 1998): 188-203. Accessed October 3, 2013. <http://www.jstor.org/stable/4329185>.

¹⁰⁰ Bolukbasi, Suha. "Behind the Turkish-Israeli Alliance: A Turkish View." *Journal of Palestine Studies*.

likelihood of Israeli-Turkish cooperation. This can explain a great deal of Israeli-Turkish cooperation. This being said, identity is very important to the formation of the Turkish state, one cannot dismiss influential Turkish political parties and the military. Since the relationship with Israel has developed economically, business interest groups are likely to alter the situation, but the role of interest groups is to bridge the cooperation gaps are energy companies with ties to Israel.

3.2 Israeli Egyptian Cooperation

This section will survey Israeli-Egyptian historical relations and their decision-making patterns toward each other. Israeli-Egyptian relations have been the focal point of many investigations since the end of WWII. The two countries have waged battle against one-another on four major occasions occurring in 1948, 1956, 1967, and 1973. These conflicts have not only impacted the geopolitical map of the Middle East but they were crucial to chessboard politics in the bipolar world. In 1979, the two countries signed a peace treaty under guarantees by the United States signaling an end to major conflict. The peace between the two sides is commonly referred to as the “cold peace” because of the lack of normalization between the countries but the continual cooperation on maintaining peaceful borders. This section studies the historical relations between the two countries.

3.2.1 Israeli-Egyptian Historical Relations

Egyptian-Israeli relations must be first discussed within the framework of the Arab-Israeli conflict. This conflict has shaped both regional and international politics. At the forefront of super-power politics in the region, the conflict has shaped international response to the Middle East and much of the Arab rhetoric regarding foreign policy. However, the significance of the Arab-Israeli conflict was not always a foreign policy imperative for Egyptian leaders. Egyptian

journalist and political historian Mohamed Heikal argues that Egypt has two foreign policy fronts. The first front is to the South especially relations with the Nile basin countries and the second is to the East with Israel and Arab countries. Heikal argues that the Southern relations are the most important goal for any Egyptian political leader; securing the Nile's waters is at the base of life and power in the country.¹⁰¹ Between 1948 and 1952 agreements on the Nile were largely considered under the control of colonial superpowers. During the same period, Israel did not consider Egypt a serious threat to its future. The subject of Egyptian recognition of Israel was intensely negotiated from 1947 to 1954.¹⁰²

Following Nasser's complete military takeover in 1954, Egyptian foreign affairs began to shift. This shift can be seen in both Nasser's rhetoric and purchases of Soviet shipments of arms in response to Israel's increasing hostility. Subsequently, Nasser's Egypt became more responsive to Israeli actions after the 1956 Suez crisis. The Egyptian leader was able to exploit superpowers to score a moral and a strategic victory in the region. Nationalizing the Suez Canal brought about a new source of income and political appeal. After 1956, Egyptian foreign policy took a very international path. As Heikal suggests, Egyptian foreign policy looked eastward toward Israel and the Arab world.¹⁰³ Egyptian-Israeli relations took an aggressive turn after the 1956 crisis. Israel was no longer the "unwanted" new nation, but was also perceived as a military threat to Egypt's interests.

The six-day war of 1967 marked another turning point in the relations between Egypt and Israel. Israel was able to squash the Arab armies in a humiliating fashion. Israel captured Egypt's Sinai Peninsula, destroyed its military, and dealt a blow to the morale of nationalist movements

¹⁰¹ Heikal, Mohamed Hassanein. "Egyptian Foreign Policy." *Foreign Affairs* 56, no. 4 (July 1978): 714-27. Accessed December 28, 2013. <http://www.jstor.org/stable/20039987>.

¹⁰² Abadi, Jacob. "Egypt's Policy Towards Israel: The Impact of Foreign and Domestic Constraints." *Israel Affairs* 12, no. 1 (2006): 159-76. doi:10.1080/13537120500382040.

¹⁰³ Heikal, Mohamed Hassanein. "Egyptian Foreign Policy." *Foreign Affairs*.

in the region. After the humiliating defeat, Egypt changed its foreign policy. Egyptian leaders believed that they could not defeat Israel in a protracted military conflict. This assumption has shaped Egyptian foreign policy leading to the peace agreement and its relations with Israel until today. United Nations Security Council resolution (UNSC) 242 adopted certain principles to create peace between Arabs and Israel. These principles were the basis of subsequent Egyptian foreign policy. Cherif Bassiouni writes that Egypt's foreign policy was shaped by five principles First, withdrawal of Israel from all Arab territories occupied after the 1967; second, recognition of Palestinian self-determination; third, recognition of the Palestinian Liberation Organization (PLO) as the sole representative of the Palestinians; fourth, recognition of Israel; and fifth; the conclusion of the conflict settled by all parties.¹⁰⁴

These principles continued to guide Egypt's foreign policy toward Israel. After 1967, Egypt was in a very weak position to negotiate any peace treaties with Israel. Many sources have indicated that the Egyptian leadership understood that the military balance of power was so tilted toward Israel that any attack would be thwarted by Israel's dominant Air Force.¹⁰⁵ Thus, president Sadat understood fully that any advantage Egypt could deploy passed a surprise attack would be through political dialogue. Those plans culminated in the surprise attack of October 1973. The initial success coupled with the oil embargo gave Egypt a new psychological advantage. Egypt's new position, with the support of its allies in the region, gave it the ability to negotiate for peace. In the beginning of the negotiations, Sadat attempted to bring other Arab leaders such as King Hussein of Jordan, Yasser Arafat of the PLO and Hafez Al-Assad of Syria, but none would accept these invitations. The visit by Sadat to Jerusalem in 1977 caused great

¹⁰⁴ Bassiouni, Cherif. "An Analysis of Egyptian Peace Policy Toward Israel: From Resolution 242 (1967) to the 1979 Peace Treaty." *International Law Journal* 12, no. 1 (Winter 1980): 3-26. Accessed November 25, 2013. Heinonline.org.

¹⁰⁵ Herzog, Chaim, and B. B. Schofield. "The Middle East War 1973." *The RUSI Journal* 120, no. 1 (1975): 3-13. doi:10.1080/03071847509420817.

anguish among other Arab leaders. On the one hand, Sadat made the decision that the USSR was not helpful militarily and economically as an ally. On the other hand, relations with the US can deliver the Sinai, military aid, economic aid, and the increased investment that Egypt's economy needed.¹⁰⁶ This culminated in the peace treaty between the two countries that endures until today. The peace process between Israel and Egypt gives great insights into Egyptian foreign policy. After accomplishing initial success, Egypt attempted to act as a regional leader. However, the dire consequences of inaction would have reflected negatively on the Egyptian state. Egypt pursues a national strategy at a time of weakness and a regional strategy at a point of strength.

The relationship between Egypt and Israel has not normalized. Final settlement between Arabs and Israel continues to protract normalization. In 1983, an article discussing the possibilities of normalization between the two countries concluded that normalization is unlikely without a full settlement of the conflict.¹⁰⁷ Jacob Abadi argues in the *Israeli Affairs* journal that the presence of Islamist parties, Egypt's weak economy, and over-reliance on the United States are the reasons for the lack of normalization.¹⁰⁸ However, the lack of normalization has not prevented the two nations from cooperating.

Cooperation on natural resources has been a pillar of the Egyptian-Israeli peace relations since the establishment of the peace treaty. Karim Wissa dedicated a thesis to discussing the role of oil in Sinai during the inter-war years, 1967-1973, and on Egyptian-Israeli peace talks. Wissa said that Egypt initially did not value the importance of oil in the Sinai. But after 1967, Egypt's economic woes and lack of access to financial capital increased the importance of oil. Egypt's economy was in dire need for foreign capital injections to alleviate further pressure on the

¹⁰⁶ Bassiouni, Cherif. "An Analysis of Egyptian Peace Policy Toward Israel: From Resolution 242 (1967) to the 1979 Peace Treaty." *International Law Journal*.

¹⁰⁷ Aulas, Marie-Christine. "The Normalization of Egyptian-Israeli Relations." *Arab Studies Quarterly* 5, no. 3 (Summer 1983): 220-36. Accessed December 12, 2013. <http://www.jstor.org/stable/41857678>.

¹⁰⁸ Abadi, Jacob. "Egypt's Policy Towards Israel: The Impact of Foreign and Domestic Constraints." *Israel Affairs*.

currency. Natural resources, particularly oil, were the quickest remedy. In the meantime, Israel supplied nearly 80% of its oil demand from the Sinai fields during the interwar period. This helped the Israeli economy tremendously causing the bill of imports to go down and offered Israel an undisrupted supply of oil. Oil was used a confidence building measure in the peace negotiations. Egyptian General Petroleum Company (EGPC) owned by the Egyptian Petroleum Ministry contracted three fictitious companies to export Sinai oil to Israel. The ban on trade with Israel was lifted in 1980. The secret trade became public with Egypt directly exporting oil to Israeli companies at an agreed price.¹⁰⁹ In 1995, Egyptian oil represented one-third of total oil consumed in Israel.¹¹⁰ That number has subsequently decreased due to maturing oil fields in the Sinai and substantial increase in Israeli demand since 1995. Oil was replaced with natural gas.

In 2005, Egyptian and Israeli companies signed a historic agreement that provided Israel with 60 bcf of natural gas, about 40% of its total consumption.¹¹¹ The deal became operational in 2008 when the Arish-Ashkelon pipeline was completed.¹¹² The amount of supplied natural gas to Israel increased incrementally to 74 bcf a year.¹¹³ However, many Egyptians had accused the outgoing president, Hosni Mubarak, of giving favorable prices to Israel and his associates of being involved in corrupt dealings. In addition to the unpopularity of the deal, militants repeatedly attacked the Arish-Ashkelon pipeline.

In April 2012, Egypt officially cancelled the gas deal with Tel Aviv. Government and

¹⁰⁹ Wissa, Karim. *The Oil Question in Egyptian-Israeli Relations, 1967-1979: A Study in International Law and Resource Politics*. Cairo, Egypt: American University in Cairo Press, 1990.

¹¹⁰ Makovsky, David. "Reviewing Egypt's Gains from Its Peace Treaty with Israel." The Washington Institute. March 7, 2011. Accessed June 1, 2013. <http://www.washingtoninstitute.org/policy-analysis/view/reviewing-egypts-gains-from-its-peace-treaty-with-israel>.

¹¹¹ "Egypt and Israel Sign 15-year Natural Gas Deal." *The New York Times*, July 1, 2005. Accessed October 15, 2013. http://www.nytimes.com/2005/06/30/business/worldbusiness/30iht-gas.html?_r=0.

¹¹² Shirkhani, Nassir. "Egyptian Gas Flows to Israel." Upstreamonline.com. March 10, 2008. Accessed November 5, 2013. <http://www.upstreamonline.com/live/article1153755.ece>.

¹¹³ Sanger-Weave, Jodi R. "EGYPT, ISRAEL, AND THE ARISH-ASHKELON PIPELINE CONTROVERSY." Prospect Journal. January 24, 2012. Accessed September 23, 2013. <http://prospectjournal.org/2012/01/24/egypt-israel-and-the-arish-ashkelon-pipeline-controversy/>.

company officials describe the cancellation as a business disagreement but many had described the situation as deteriorating political ties.¹¹⁴ It was most likely a combination of the business and politics. Egypt natural gas consumption has been booming while reserves stagnate. According to BP Statistical Review, Egypt's proved reserve increased by 5% from 2004-2012. At the same time domestic consumption increased by 65%. Production kept up with demand but the stagnation of reserves meant that supplies for exports had to decrease.¹¹⁵ Egyptian natural gas exports have declined in half from 496 bcf in 2008 to 237 bcf in 2012.¹¹⁶ Egyptian LNG plants have become inefficient because of the increasing domestic consumption and stagnant reserves leading to lower exports. Such business interests are an important factor, however, they pale in comparison to geopolitics and the increasingly important internal politics. Furthermore, business interests in Egypt are seen as part of the state apparatus especially in the energy sector.

¹¹⁴ Sherwood, Harriet. "Egypt Cancels Israeli Gas Contract." Theguardian.com. April 24, 2012. Accessed November 23, 2013. <http://www.theguardian.com/world/2012/apr/23/egypt-cancels-israeli-gas-contract>.

¹¹⁵ "BP." Statistical Review of World Energy 2013. Accessed April 18, 2013.

¹¹⁶ "Egypt." U.S. Energy Information Administration - EIA - Independent Statistics and Analysis.

Chapter 4: Prisoner's Dilemma

Since there is no enforcement of law in the international system, states seek optimal partnerships with one-another. These partnerships are often “arise from self-interested parties endeavoring to coordinate their behavior to reap gains”.¹¹⁷ Keohane and Nye describe regimes not only as a one-time agreement but also as a set of agreements. Similarly, Axelrod's IPD game theory models indicate that actors will evolve to cooperate if they see themselves playing the same game more than once.¹¹⁸ Similar to the World Trade Organization or American-Canadian relations' post-WWII, regimes exhibit a set of implicit or explicit rules to coordinate activities. Anarchy in the international system presents states with the dilemma of common interest. Cooperation in the international system creates internal and external risks for the political actors. Defection is the safest strategy in the dilemma of common interests. To cooperate, the internal and external environments of the states must make them aware of the benefits not only of initial cooperation but also of long-term payoffs of the implicitly or explicitly-formed set of rules. For example, the ECSC was a foundational regime base for the European Community. Successful bargaining by regional powers created the rules of ECSC. The political environment of a post-WWII Europe was conducive to regime building. The process of regime building after initial cooperation relies on the need for other states to engage in efficient cooperation and the capacity of foundational members to accommodate those interests. Analyzing the current dynamics and objectives of these states, in addition to their internal and external political environment helps us capture the inclination to cooperate or defect in the initial steps of forming a regime.

In chapters two and three, I discussed the economic variables and the historical

¹¹⁷ Osherenko, Gail, and Oran R. Young. *The Age of the Arctic: Hot Conflicts and Cold Realities*. Cambridge: Cambridge University Press, 1989. Pg 239

¹¹⁸ Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence*. & Axelrod, Robert M. *The Evolution of Cooperation*.

conditions that existed to allow these states to cooperate. In this chapter, I lay out further economic data, discuss the current political relationship of these countries, and it will also tackle the internal environment that is critical to decision-making. The two fundamental questions that I address are 1) what is the probability of Israeli-Turkish cooperation? 2) What is the probability of Israeli-Egyptian cooperation?

The first section elaborates on Israeli objectives. I examine the cost and benefits that Israel could gain from these natural resources, the geopolitical value of those benefits, and Israel's policy toward the development of the resources. Turkey and Egypt have different various reasons for cooperating and defecting. These states suffer the classic dilemma of common interests. By analyzing Egypt and Turkey's current state of affairs we can deduce if the political climate that is feasible for cooperation. These incentives shape the possibilities of orchestrating an initial agreement that can continue to morph into a set of arrangements. Then, the IPD will express the financial and political investment by both sides. Additionally, I talk about the impact of external powers and how they could influence defection or cooperation.

4.1 Israeli Objectives

Israeli natural gas discoveries have significant potential for increasing Israeli strategic depth in the region. On the one hand, Israel will take valuable steps towards reducing energy dependence, enhance its economic outlook, and have the potential to create and enhance strategic relationships with export destinations. On the other hand, the discoveries could potentially provide a menacing security threat and geopolitical volatility. Maritime territorial integrity has already caused heightened tension between Israel and Lebanon. In addition, Israel's shifting alliances has already rattled Turkey. Discoveries of offshore natural gas could increase naval deployments, which increase the possibilities of miscalculation in the Mediterranean.

Israel has a developed economy with no natural resources--a feat that is quite rare in the region. According to Gawdat Bahgat, "[Israel's] decades-long efforts to discover oil at a commercial level have not succeeded".¹¹⁹ In 2011, Israel relied on imports for 18.84 Million Tonnes of Oil Equivalent (Mtoe) out of 23.25 Mtoe consumed; more than 80% of its energy needs.¹²⁰ Israel has made substantial progress on renewable energy production capacity and production of natural gas, but nearly all of its coal and crude oil is imported.¹²¹ Between 2008 and 2012, Egypt supplied the bulk of Israel's natural gas. However, Israeli natural gas discoveries in the past decade are reshaping its energy sector. From 2010 to 2011, Israeli natural gas production increased from 54.74 bcf to 91.82 bcf.¹²² Since coming online in April 2013, Tamar has produced an average of 636 million cubic feet (mcf) daily.¹²³ With Tamar's current production capacity, Israel now produces nearly 250 bcf of natural gas annually, freeing it from reliance on foreign sources.

To further utilize these discoveries, Tel Aviv is increasing the use of natural gas in energy production. While it mostly serves as fuel for electricity, Israel will attempt to widen the uses of natural gas and further decrease its reliance on international markets and vulnerability to price fluctuations. Natural gas will also have strong net positive effects on the economy. According to the Bank of Israel, gas discoveries are expected to contribute nearly one full percentage to Israel GDP in 2013. These supplies will also help alleviate Israel's resource import bill by nearly \$3

¹¹⁹ Bahgat, Gawdat. "Israel's Energy Security: The Caspian Sea and the Middle East." *Israel Affairs* 16, no. 3 (2010): 406-15. doi:10.1080/13537121.2010.487729.

¹²⁰ "Israel: Indicators for 2011." IEA. Accessed November 23, 2013.

<http://www.iea.org/statistics/statisticssearch/report/?country=ISRAEL&year=2011&product=Indicators>.

¹²¹ United States of America. Energy Information Administration (EIA). Independent Statistics & Analysis. March 2013. Accessed October 23, 2013. <http://www.eia.gov/countries/country-data.cfm?fips=is>.

¹²² *ibid*

¹²³ Azran, Eran. "Israel's Tamar Offshore Natural Gas Field at Full Capacity, Noble Energy Says." *Haaretz.com*. July 28, 2013. Accessed October 15, 2013. <http://www.haaretz.com/business/.premium-1.538283>.

billion in 2013.¹²⁴ With potentially major gas exports in the future, Israel's net financial benefit from natural gas will only increase.

These resources present a number of uncertainties. Their exploration has already caused increased regional tension. This tension originated from maritime border disputes between Israel and Lebanon. Lebanon claims that Israel is siphoning off its resources and that part of the Tamar and Leviathan fields are located in Lebanon's EEZ.¹²⁵ While the Lebanese do not present a significant naval threat to Israel, Hezbollah's militia wing does threaten Mediterranean natural gas infrastructure. Hezbollah-controlled Iranian missiles, such as zalazel-2, have the capacity of reaching Israel's offshore fields. These threats prompted the Israeli military to ask for 3 billion Israeli shekels (equivalent to US\$860 million) to be set aside for purchasing the naval equipment required to protect offshore rigs.¹²⁶

Israel's early cooperation with Cyprus-- against the wishes of Ankara-- has also increased geopolitical tension. Since Israel's attack on the Gaza-bound Turkish flotilla in 2010, the Turkish navy has exponentially increased its naval operations in the Mediterranean. The Turkish navy possesses the largest fleet in the Eastern Mediterranean with approximately 200 ships.¹²⁷ This escalation of activities on the high seas will increase the potential for signal miscalculation and increase the opportunities for hostilities to erupt. The region's chaotic breakdown since 2011 has also produced uncertainty-- particularly in Syria. The outcome of the Syrian civil war could, potentially, produce a regime with better ties to Ankara. If Israel chooses to pursue a natural gas

¹²⁴ Solomon, Shoshanna, and Gwen Ackema. "Israel Starts Tamar Gas Production." Bloomberg.com. March 31, 2013. Accessed November 13, 2013. <http://www.bloomberg.com/news/2013-03-30/israel-begins-gas-production-at-tamar-field-in-boost-to-economy.html>.

¹²⁵ "Lebanon Wards Israel off Energy Reserves." UPI. July 8, 2013. Accessed November 14, 2013. http://www.upi.com/Business_News/Energy-Resources/2013/07/08/Lebanon-wards-Israel-off-energy-reserves/UPI-45071373282149/.

¹²⁶ Cohen, Gili. "Israel Navy Demands NIS 3 Billion for Protection of Gas Rigs." Haaretz.com. July 9, 2012. Accessed October 23, 2013. <http://www.haaretz.com/news/diplomacy-defense/israel-navy-demands-nis-3-billion-for-protection-of-gas-rigs-1.449954>.

¹²⁷ Zhukov, Yuri M. "Trouble in the Eastern Mediterranean Sea." *Foreign Affairs*, March 20, 2013. Accessed November 22, 2013. <http://www.foreignaffairs.com/articles/139069/yuri-m-zhukov/trouble-in-the-eastern-mediterranean-sea>.

exportation partnership with Cyprus or Greece, the region could see an alarming realignment of power. Such a change could produce uncertain outcomes. These include increased hostilities from Turkey towards Cyprus and deepen mistrust and tension between Arab states and Israel.

Israel can use this opportunity to increase cooperation in the region, rather than widen the power gaps or tension between old rivalries. Regional leaders are well aware of this tension. But this awareness does not signify a readiness to compromise. Israeli priorities are fairly clear. In determining export destinations, Israel has allowed firms to be in semi-control of the process.¹²⁸ But in March 2013, Israeli Minister of Energy and Water Uzi Landau warned that companies cannot sign export contracts without the final approval of the government.¹²⁹ The Israeli administration wants to stay clear of political waters as much as possible by showing that the process is purely financial, but Tel Aviv understands that any decision will be political. Any export strategy must be compatible with Israel's security policy. In an energy conference in September of 2013, Israel's energy envoy said that Israel favors having more than one export option. The envoy also stressed that Israel would like to work with both Cyprus and Turkey.¹³⁰ In the Tzmach report, Israel stated preference for having an LNG station in *its* maritime territory-- and not in Cyprus, as initially proposed.¹³¹ In October 2013, the Minister of Energy and Water said that Israel is holding talks with Egypt on exporting natural gas,¹³² but the Chairman of the Egyptian Natural Gas Holding Company (EGAS) quickly denied the rumor. According to a report from Reuters, the Egyptian official said that Egypt is not interested in purchasing gas from

¹²⁸ State of Israel. Inter-Ministerial Committee. *THE RECOMMENDATIONS OF THE INTER-MINISTERIAL COMMITTEE TO EXAMINE THE GOVERNMENT'S POLICY REGARDING NATURAL GAS IN ISRAEL*. September 2012.

<http://energy.gov.il/English/PublicationsLibraryE/pa3161ed-B-REV%20main%20recommendations%20Tzemach%20report.pdf>.

¹²⁹ Yeshayahou, Kobi. "Energy Minister Warns Tamar Partners Not to Sign Export Deals." *Globes*. March 12, 2013. Accessed September 3, 2013. <http://www.globes.co.il/serveen/globes/docview.asp?did=1000829375&fid=1725>.

¹³⁰ "Israel Sees Turkey-Cyprus Settlement as Key to Gas Exports." UPI. September 25, 2013. Accessed October 23, 2013. http://www.upi.com/Business_News/Energy-Resources/2013/09/25/Israel-sees-Turkey-Cyprus-settlement-as-key-to-gas-exports/UPI-14461380138601/.

¹³¹ State of Israel. Inter-Ministerial Committee.

¹³² Ronen, Gil. "Israel: We May Export Gas to Egypt." *Israel National News*. October 22, 2013. Accessed November 1, 2013. <http://www.israelnationalnews.com/News/News.aspx/173082#.Uq78M2QW2VA>.

Israel via a pipeline; he said that Egypt would rather developed its capacity to import LNG.¹³³ Israel is intent on diversifying its export options. This is not only economically smart but it is also a wise move geopolitically. Israel does not want to be over-reliant on Turkey as its gateway to the European market and it also wants to avoid any complications provided by Cypriot-Turkish antagonism.

Regarding its territorial conflict with Lebanon, Israel has pursued a two-faced policy. On the one hand, accepting the United States as a mediator between the two countries. In November, Lebanese Energy minister said, “there is progress on the subject” however, he mentioned that this progress is only in viewpoints of both sides.¹³⁴ On the other hand, there seems to be very little change. Israel has continued to operate on the basis of its own demarcations, and development of Tamar and Leviathan has seen no change. Israel believes that it has very little to worry about from the Lebanese front. The Lebanese military does not have the capability to engage Israel on the high seas and Hezbollah is in a quagmire in the Syrian civil war. Since its early engagement in the Syrian civil war, Hezbollah has lost a great deal of popularity in many Lebanese and Arab circles and its military capabilities are busy defending the Assad regime.

Israel’s early calculation can be seen as an attempt to create unintended geopolitical chaos. The years that produced the largest discoveries of natural gas reserves coincided with the years during which Israeli-Turkish relations were deteriorating. Israel sought to balance Turkey with Greece and Cyprus. However, Greece is not a substitute for Turkey. Israeli envoys to energy conferences began displaying a shift in early 2013 shortly after Netanyahu’s apology to Turkish PM Erdogan. Currently, Israel seems to be exploring every option for exporting its

¹³³ Fick, Maggie. "Egypt Says Not Interested in Israeli Gas as Plans LNG Imports." Reuters. October 23, 2013. Accessed January 23, 2014. <http://www.reuters.com/article/2013/10/23/energy-egypt-gas-idUKL5N0ID1VU20131023>.

¹³⁴ "Progress in U.S. Mediation on Maritime Border | Business , Lebanon." The Daily Star Newspaper. November 21, 2013. Accessed January 1, 2014. <http://www.dailystar.com.lb/Business/Lebanon/2013/Nov-21/238480-progress-in-us-mediation-on-maritime-border.ashx#axzz2ndirtq00>.

natural gas, developing its fields, and maintaining the regional distribution of power. Israel does not want to evoke more geopolitical changes than those already being caused by the so-called “Arab Spring”.

4.2 Israel’s and Turkey’s Dilemma of Common Interest

Turkey’s relations with Israel have historically been mostly cordial. The two countries have found cooperation effective. However, many facets of Turkish society are uncomfortable with Israel as partner. Turkey’s multidimensional identity and its changing foreign policy goals are key to the environment surrounding bilateral relations and future cooperation. Ankara’s foreign policy is striking an independent tone and has attempted to play an active role on regional issues. Additionally, the reputation of Turkey’s emerging economy and its business-driven political parties make the possibilities for cooperation stronger. Turkey also has a stake in exploiting the region’s energy resources for the Turkish community in Cyprus. The Turkish-Cypriot dispute represents the greatest regional threat to exploit its natural resources. Israel’s stated policy objective is to avoid the territorial disputes between Nicosia and Ankara. For cooperation to occur, Turkey must compromise on Cyprus in return for Israeli investments and natural gas. But Turkey cannot be sure that Israel will reciprocate. Israel has other options, one of which is to partner with Cyprus on an LNG terminal. For Israel, cooperation with Turkey is not the most lucrative option but it remains an excellent option for investors. However, Israel political leaders will be heavily reliant on Turkey as transit state. A situation that gives Turkey the opportunity to use natural gas as a political tool.

4.2.1 Strategic depth

Turkey’s heavy reliance on energy imports makes Israel’s natural gas an appealing opportunity for diversification. In 2011, Turkey imported via pipeline 56% of its consumed natural gas from

Russia and 19% from Iran. The rest of its imports came from Nigerian and Algerian LNG contracts.¹³⁵ Turkey's dependence on Russia-- its historic rival--makes Israel's natural gas a wise geopolitical and economic alternative. In 2012, Turkey consumed 1.64 tcf, and was completely dependent on foreign imports.¹³⁶ Israel's exports can compete with Russian exports by driving down prices and giving Turkey greater diversity and replacing expensive LNG imports. A natural gas pipeline could add to Turkish "strategic depth" in the region. Strategic depth often refers to Turkey's policy-makers emphasis on utilizing the country's geopolitical position to enhance its regional power.

Gareth Winrow identifies two strategic imperatives for Turkish energy strategy. The first priority is to secure energy supplies for growing domestic consumption. The second is to become a strategic transit state for energy and a regional energy hub.¹³⁷ Turkey is leveraging its geography to further its strategic political ambitions. Located between the Caucasus, Russia, Middle East and Europe, Turkey geographical situation has made it a strategic player, rather than merely a heavy importer. There are two significant economic benefits for a transit state. First, the transit state earns significant fees from energy transfer. And, second, part of the fuels in the pipelines is often sold to the transit state at a reduced price. This is very significant for an energy-dependent country like Turkey; fuel imports accounted for past balance of payments crises. There are also a number of secondary effects, such as job creation, increases economic activity, and security of energy flows into the domestic market.

Turkey's ambition to build a complex pipeline matrix is slowly materializing. The port of Ceyhan represents one of the world's most strategic energy ports. Ceyhan is the terminal for two

¹³⁵ Turkey." U.S. Energy Information Administration - EIA - Independent Statistics and Analysis.

¹³⁶ "BP." Statistical Review of World Energy 2013.

¹³⁷ Winrow, Gareth M. "The Southern Gas Corridor and Turkey's Role as an Energy Transit State and Energy Hub." *Insight Turkey* 15, no. 1 (2013): 145-63. Accessed November 2013. http://file.insightturkey.com/Files/Pdf/insight-turkey-vol_15_no_1_2013_winrow.pdf.

major pipelines. In 2006, the Baku-Tblisi-Ceyhan, which carries approximately 1.2 million bpd of Azeri and Kazakh oil, came into service. The other major pipeline is the Kirkuk-Ceyhan pipeline, which has an operational capacity of 1.65 million bpd but operates at only 600,000 bpd.¹³⁸ In 2008, the EU initiated “An EU Energy Security and Solidarity Action Plan”, which called for energy consumption diversification by EU member states and created an action plan for future investment in energy infrastructure. The EU commission also proposed the Southern Gas Corridor, which connects the EU to Middle Eastern and Caspian gas fields, with Turkey playing a major role.¹³⁹ Turkey’s interconnector with Greece is already carrying substantial amounts of Azeri natural gas towards Europe. In 2014, construction is due to begin on the Trans-Anatolia pipeline (TANAP). The pipeline will carry Azeri gas to Turkey via Georgia and will eventually connect to the Trans-Adriatic pipeline linking Greece, Turkey, and Italy.¹⁴⁰ Turkish policymakers concerned about the country’s “strategic depth” relish the opportunity to make the new Eastern Mediterranean fields a part of the country’s diverse web.

4.2.2 Identity and foreign policy

Some Turkish policymakers, especially PM Erdogan, have made a domestic and international reputation by antagonizing Israel. Israeli actions in the region, especially in the Palestinian territories, have increasingly damaged Israel’s international reputation. Many analysts suggest that Turkey’s new policies favor the East and damaged their relations with the West. The foreign policy vision of Neo-Ottomanism has rekindled the idea of a hegemonic Islamist Turkey.

Omer Taspinar explained in *The Washington Quarterly* that there are three “grand strategic visions” driving Turkish foreign policy: Kemalism, Neo Ottomanism, and Gaullism.

¹³⁸ Turkey." U.S. Energy Information Administration - EIA - Independent Statistics and Analysis.

¹³⁹ European Union. COMMISSION OF THE EUROPEAN COMMUNITIES. *AN EU ENERGY SECURITY AND SOLIDARITY ACTION PLAN*. November 13, 2008. Accessed October 1, 2013. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EN:PDF>.

¹⁴⁰ "What Is TANAP." TANAP – Trans Anadolu Doğal Gaz Boru Hattı Projesi. Accessed September 23, 2013. <http://www.tanap.com/en/what-is-tanap>.

The author explains, in today's Turkey Kemalism is represented by the secular People's Republican Party (CHP); Neo-Ottomanism by the religiously ideological AKP; and Gaullism by a mixture of both. Taspinar argues that Neo-Ottomanism advocates a foreign policy that prioritizes the importance of Turkish identity, history and geographic position. Neo-Ottomanists do not seek hegemony but they pursue an active policy, especially in the former territories of the Ottoman Empire, seeking political opportunities to improve the economic standing of Turkey. The author argues that Erdogan's approach to Syria follows this path of re-engaging former Ottoman territories--in order to benefit the economic welfare of Turkey. But policies pursued by AKP continue to focus upon Turkish borders and national identity rather than a religious or an ideological identity.¹⁴¹ AKP's policy of reaching out to the Middle East was fairly successful economically. Turkey's trade with the Middle East increased from US\$3.9 bn in 2002 to US\$23.6 bn in 2010. Not only did trade grow, but also as portion of the Turkish economy, trade more than doubled from 6% in 2002 to 16% in 2010.¹⁴² After the Arab Spring, Turkish policy took on an ideological edge. Erdogan's unrelenting support for the Muslim Brotherhood in Egypt and reports of Turkish authorities favoring Islamists fighters in the Syrian civil war sheds light on the ideological remnants of AKP policymakers. This does not mean that a partnership with Israel is inconceivable but a religiously ideological AKP may deviate away from a strategic economic cooperation with Israel.

The ideological character of political actors in Turkey remains an important factor in the decision making process. AKP is less likely to cooperate with Israel than CHP, however, its history suggests that it almost always favors economic partnership over political theatrics. A closer examination of historical relations between Israel and Turkey reveals that identity is not

¹⁴¹Abadi, Jacob. "Egypt's Policy Towards Israel: The Impact of Foreign and Domestic Constraints." *Israel Affairs*.

¹⁴²Sanberk, Ozdem. "How Strong Is Turkey in the Middle East." *Turkish Weekly*. May 9, 2012. Accessed December 18, 2013. <http://www.turkishweekly.net/columnist/3621/how-strong-is-turkey-in-the-middle-east.html>.

the only important factor. Turkey's policy towards Israel is impacted by its perception of the geopolitical threat environment around its borders, especially those arising from Syria and Iraq.

4.2.3 Syria and Iraq on Turkish foreign policy

Turkish and Syrian mutual threat perception has guided their bilateral relations. Turkey has often used its strategic alliance with Israel as counterweight to the strategic threat posed by Syria. Moran Stern and Dennis Ross argue, "developments in or associated with Syria have proved instrumental in determining Israeli-Turkish relations, for better or for worse".¹⁴³ A range of threats has emerged in Syrian-Turkish relations since 1946. Syria claims the province of Hatay, annexed by Turkey in 1938, as part of its own territory.¹⁴⁴ Syria's support for the Kurdish Workers Party (PKK) has also played a tremendous role in the Turkish-Syrian relations. Syria funded and assisted the PKK to create constant pressure on Turkey. But in 1999, after the capture of PKK leader Abdullah Öcalan and threats of invasion by Turkish, in response, Syria, abandoned the PKK and list it as a terrorist group. The bilateral relations improved steadily.

Hydro politics were an instrumental component of Turkish-Syrian reengagement. Robert Olson argues that the Turkish-Syrian relations are mostly focused on Kurds and water. He further argues that Syria used the Kurds to pressure Turkey on water issues, particularly water allocation, and Turkey used water allocation to pressure Syria to crackdown on the PKK.¹⁴⁵ The decline for Syrian support for Kurdish nationalists at the end of the 1990's, the advent of Turkish foreign policy of the early 2000's, and peace negotiations with the PKK helped transform the Syrian-Turkish relationship. In 2008, Turkey enjoyed good relations with Damascus. Putting its

¹⁴³ Ross, Dennis, and Moran Stern. "The Role of Syria in Israeli-Turkish Relations." *Politics & Diplomacy*, Summer 2013, 115-28. Accessed November 1, 2013. <https://www.washingtoninstitute.org/uploads/Documents/opeds/Ross20130731-GeorgetownJournal.pdf>.

¹⁴⁴ Kalpakian, Jack. *Identity, Conflict and Cooperation in International River Systems*. Aldershot, Hants, England: Ashgate, 2004. Pg 130.

¹⁴⁵ Olson, Robert. "Turkey-Syria Relations since the Gulf War: Kurds and Water." *Middle East Policy* 5, no. 2 (May 1997): 168-93. Accessed September 23, 2013. <http://onlinelibrary.wiley.com/doi/10.1111/j.1475-4967.1997.tb00272.x/abstract>.

good relations to test, Turkey, attempted to broker peace talks between the Israelis and Syrians but the talks collapsed after Israel began its raid on Gaza.¹⁴⁶ The deterioration in Turkey's relationship with Tel Aviv catalyzed the rise of Ankara's relations with Damascus. In 2009, at a gathering of the Syrian-Turkey business council, Erdogan emphasized cooperation with Syria and his willingness to further cooperation saying "not only are we abolishing visas, we will remove other obstacles, too. We will append our signature on partnerships which could be a model for the world. We have this potential". Earlier that year, the two countries signed strategic cooperation agreement whereby high-level officials of both countries would be meeting frequently.¹⁴⁷ Additionally, the two countries signed a pact that allows cooperation between the defense industries.¹⁴⁸ The two militaries conducted a symbolic three-day border drill, which received significant attention from Israel.¹⁴⁹

Prior to the breakout of the Syrian civil war, Turkish-Syrian relations reached unprecedented cooperation. Syria's unexpected civil uprising, the government harsh crackdown followed by the commencement of the civil war has changed the paradigm of the relationship between Syria and Turkey. In August 2011, nearly five months after the commencement of the uprising in Syria, Turkey's FM Ahmet Davutoglu issued a warning to the Assad regime to stop the crackdown "immediately and unconditionally" on Syrian civilians.¹⁵⁰ The relationship declined quickly. First, Turkey called for dialogue between parties then advocated the overthrow

¹⁴⁶ "Israel-Syria Confirm Peace Talks." BBC News. May 21, 2008. Accessed January 23, 2014. http://news.bbc.co.uk/2/hi/uk_news/england/london/7412247.stm.

¹⁴⁷ "PM Vows to Build Model Partnership with Syria." TODAY'S ZAMAN. December 24, 2009. Accessed January 23, 2013. <http://www.todayszaman.com/tz-web/news-196473-102-pm-vows-to-build-model-partnership-with-syria.html>.

¹⁴⁸ SARIIBRAHIMOĞLU, LALE. "Turkey, Syria to Forge Defense Industry Cooperation." TODAY'S ZAMAN. April 27, 2009. Accessed September 23, 2013. http://www.todayszaman.com/newsDetail_getNewsById.action;jsessionid=FD78927EDA2B2BA8966EF9B10B8ED85D?newsId=173615.

¹⁴⁹ "Turkey and Syria Conduct Military Drill, Israel Disturbed." TODAY'S ZAMAN. April 28, 2009. Accessed January 23, 2014. http://www.todayszaman.com/newsDetail_getNewsById.action;jsessionid=B64078A4BE035D325E2DF1E8EC0B393D?newsId=173723.

¹⁵⁰ Shadid, Anthony. "Turkey Warns Syria to Stop Crackdown." The New York Times. August 15, 2011. Accessed December 3, 2013. http://www.nytimes.com/2011/08/16/world/europe/16turkey.html?_r=0.

of the Syrian regime. In January 2012, Syrian forces fired at two Turkish jets. Subsequently, Turkey increased pressure against the Assad regime warning that it could take further steps to protect itself against “hostile action”.¹⁵¹ Official United Nations (UN) documents confirmed the transfer of 47 tons of weapons in 2013 across the Turkish border to Syria; however, Turkish foreign ministry said that the weapons were for “non-military use”.¹⁵² Reports have also suggested that Turkey has supported a number of Islamist groups, including Al-Qaeda affiliated groups, in an effort to target Kurdish fighters in Syria.¹⁵³ The increase in hostilities on the Syrian border prompted closer coordination with Israel. Shortly after Israel’s apology to Turkey, Turkey purchased Airborne Warning and Control System (AWACS).¹⁵⁴ Purchasing sophisticated military technology has been the highlight of Turkish-Israeli relations during the era of cooperation. The situation in Syria presents a wide range of threats to Turkey. These threats include Kurdish autonomy, border violence, and the possible victory of Bashar Al Assad. This increases the likelihood for cooperation between Turkey and Israel. In addition, to Turkey’s need for high-tech weapons and surveillance system as well as shared interest to contain the violence in Syria.

The relationship between Turkey and Iraq follows a similar pattern to the Turkish-Syrian relations. Turkish-Iraqi relations exhibit the same characteristics and effect on Israel as the Turkish-Syrian relations. Its relations with Iraq have historically focused on the security threats from Iraq’s Kurdish population. Threats emerging from Kurdish communities drove Turkey’s

¹⁵¹ "Turkey Accuses Syria Forces of Firing at Second Jet." Haaretz.com. June 25, 2012. Accessed November 26, 2013. <http://www.haaretz.com/news/middle-east/turkey-accuses-syria-forces-of-firing-at-second-jet-1.443873>.

¹⁵² Soffer, Ari. "Turkey Supplied 47 Tons of Weapons to Syria Rebels - Middle East - News - Israel National News." Israel National News. December 16, 2013. Accessed December 19, 2013. <http://www.israelnationalnews.com/News/News.aspx/175207#.UswmNGQW2VA>.

¹⁵³ Çandar, Cengiz. "US, Turkey to Rethink Syria Policies - Al-Monitor: The Pulse of the Middle East." Al-Monitor. December 15, 2013. Accessed January 12, 2014. <http://www.al-monitor.com/pulse/originals/2013/12/turkey-syria-kurdish-pyd-policy-united-states-redefine.html>.

¹⁵⁴ SHMULOVICH, MICHAL. "Israel Supplying Advanced Weaponry to Turkey." The Times of Israel. February 18, 2013. Accessed December 21, 2013. <http://www.timesofisrael.com/israel-supplying-advanced-weaponry-to-turkey/>.

policies toward the West, especially Israel in the 1990s. Turkey's East Anatolian Project or GAP, a series of dams on the Tigris and Euphrates, continues to stir complications with Iraq.¹⁵⁵ But scholars such as Henri Barkey describe the historical relationship between Baghdad and Ankara by stating, "beyond Cold War concerns, Turkey's interest in Iraq was limited to the potential threat of a Kurdish ethnic awakening".¹⁵⁶ Another scholar, Marvin Howe, explains "against this background of continued tension with their neighbors, a group of Turkish military commanders flew to Israel in February 1996 and signed a far-reaching Military Cooperation and Training Pact".¹⁵⁷ Since the mid 1980's until most recently, the Kurdish threat drove a wedge between Turkish and a Middle East rapprochement and in the process making Israel the most natural ally.

Barkey concludes that three major wars in Iraq since 1980 played a major role in crystallizing the Kurdish threat for Turkey. The Iraq-Iran conflict from 1980-1988 coincided with the Kurdish rebellion in Turkey. Kurdish refugees from Iraq further complicated the security threat to Turkey. The U.S. led defeat of Saddam Hussein in 1991 augmented the number Kurdish refugees and lead to the creation of Kurdish autonomous region. Iraqi Kurdistan became a "rear base of operations" for the PKK. In 2003, The United States led invasion of Iraq advanced the autonomy of northern Kurdish areas. A year later, the PKK started carrying out operations against Turkey from Kurdistan Iraq.¹⁵⁸ But with the advent of new Turkish foreign policy, Turkish leaders pursued a strategy of co-opting the Kurds in Iraq.

Recognizing the political vacuum in Iraq, Turkey sought to take advantage and play an integral role in Iraq's politics. On the other hand, The Kurdistan Regional Government (KRG)

¹⁵⁵ Turunc, Hasan. "Turkey and Iraq." In *Turkey's Global Strategy*, 40-44. London: LSE, 2011. Accessed November 24, 2013. <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR007/iraq.pdf>.

¹⁵⁶ Barkey, Henri J. "Turkey and Iraq: The Making of a Partnership." *Turkish Studies* 12, no. 4 (2011): 663-74. doi:10.1080/14683849.2011.622508.

¹⁵⁷ Howe, Marvin. "Between Turkey and Israel, the Wounds Run Deep." *Washington Report on Middle Eastern Affairs* 31, no. 7 (October 2012): 34-35. Accessed December 19, 2013. <http://www.wrmea.org/wrmea-archives/519-washington-report-archives-2011-2015/october-2012/11417-between-turkey-and-israel-the-wounds-run-deep.html>.

¹⁵⁸ Barkey, Henri J. "Turkey and Iraq: The Making of a Partnership." *Turkish Studies*.

has been planning its economic independence from Baghdad. With only two borders, Iran and Turkey, the KRG calculated that reconciliation with Ankara is a necessity. There has been a remarkable change in Turkey's national interest since the beginning of the 2003 Iraq war. In a 2005 report, Henri Barkey outlines Turkey's dual interests in Iraq: the first is denying a safe haven for PKK to carry out operations against its military personnel and, the second, is to "minimize" the politicization of the Kurdish community in Iraq. Turkey's historical preference is to maintain a powerful central government in Iraq to insure its objectives.¹⁵⁹ A 2012 report, released by the Washington Institute, titled "Iraqi Kurds draw closer to Ankara while Baghdad seems to drift further away".¹⁶⁰ In just seven years, Turkey went from attacking PKK positions in northern Iraq to burgeoning trade valued at nearly US\$8 billion in 2012.¹⁶¹ There are multiple reasons for the turnaround. Peaceful negotiations between the PKK and Ankara, Turkey's need for energy supplies, export oriented industrial base of the AKP, and the KRG's ambitions of self-reliance just to name a few. Turkey's relations with Iraq's central government have been less stellar. In 2012, Turkey's ambassador to Iraq was summoned for meddling in "domestic affairs". Iraqi PM Nouri Al Maliki said "Turkey interferes by backing certain political figures and blocs" continuing to warn that "Turkey is unqualified to intervene in the region's flash points".¹⁶² Ankara has been increasingly vocal about the Shiite-Sunni rift in Iraq and elsewhere in the region. Shiite Nouri Maliki sees Turkey as a backer of Sunni influential blocs in Iraq. On the other end, the situation with Iraq's Kurds continues to improve after the signings of energy

¹⁵⁹ Barkey, Henri J. *Turkey and Iraq: The Perils (and Prospects) of Proximity*. Washington, D.C.: United States Institute of Peace, 2005.

¹⁶⁰ Evans, Tyler, and Soner Cagaptay. "Turkey's Changing Relations with Iraq: Kurdistan Up, Baghdad Down." Washington Institute. October 2012. Accessed July 30, 2013. <http://www.washingtoninstitute.org/policy-analysis/view/turkeys-changing-relations-with-iraq-kurdistan-up-baghdad-down>.

¹⁶¹ Idiz, Semih. "Turkey's New Thinking on Iraqi Kurdistan - Al-Monitor: The Pulse of the Middle East." Al-Monitor. December 27, 2012. Accessed October 1, 2013. <http://www.al-monitor.com/pulse/originals/2012/al-monitor/turkey-kurdistan-irag-barzani.html>.

¹⁶² PARKINSON, JOE, and SAM DAGHER. "Iraq Lashes Out at Turkey as Sunni-Shiite Rift Grows." Wall Street Journal. January 17, 2012. Accessed November 15, 2013. <http://online.wsj.com/news/articles/SB10001424052970203735304577165140234013650>.

agreements. The KRG allowed for the transport of oil to Turkey against Baghdad's wishes. Highlighting the better relations and the historical turn around, KRG leader Massoud Barzani made a special visit to Ankara as a guest of PM Erdogan.¹⁶³ The peace talks with the PKK remain one of the most elusive and important issues regarding Turkish-Kurdish relations. If the peace talks between the PKK and Ankara do not lead to a settlement, we could witness a rehashing of Kurdish nationalism, which could become more dangerous for Turkey.

In conclusion, the Kurdish conflict, taking place in Iraq and Syria, has been very influential on the bilateral relations between Turkey and Israel. This is more apparent after the end of the cold war because the historic rivalry with Russia no longer threatens Turkish sovereignty. The peace negotiations with the PKK are very important to the environment of Israeli-Turkish relations. If the peace talks fail, chances for greater cooperation between Israel and Turkey will increase. On the other hand, peace with Kurds could mean greater conflict between Turkey and its regional border. In either event, Turkish-Israeli relations will most likely improve. Syria's unending civil war will continue to revive the Israeli-Turkish partnership leading to more avenues of cooperation.

4.2.4 Economics and Business Interest

At the heart of Turkey's new economy is an export-based industry. Many contend that this industry makes the backbone of the ruling party. While business interest are not very significant between the two countries, Turkish energy firms could have a role in bridging the gap between Israel and Turkey. The Israel-Turkey business council, aimed at fostering business relations between companies of the two countries, has more than 100 member companies.¹⁶⁴ The council

¹⁶³ AFP. "Iraq Kurdish Leader Massoud Barzani Visits Turkey for 'historic Talks'" Gulfnews.com. November 15, 2013. Accessed December 26, 2013. <http://gulfnews.com/in-focus/iraq-anniversary/iraq-kurdish-leader-massoud-barzani-visits-turkey-for-historic-talks-1.1255317>.

¹⁶⁴ "Israel Turkey Business Council." Israel Turkey Business Council. Accessed December 26, 2013. <http://www.israel->

has facilitated trade relations, which has continued to skyrocket despite the political tension. Trade between the two countries has increased by 35% since the *Mvi Marmara* incident off the coast of the Gaza strip.¹⁶⁵ Although such data should be treated with caution, but there seems to be very little correlation between the two countries trading habits and political relations.

Zorlu Holdings, a Turkish conglomerate investing in Israel, is in talks with the various owners of the gas fields to export natural gas through Turkey. Chief executive of Zorlu said, “Turkey is a very suitable route for Israeli gas. I can even say it is the most suitable”. Zorlu energy, an arm of Zorlu holdings, owns 25% of Dorad Energy, which is building an 875-megawatt (MW) power plant in the coastal city of Ashkelon. The project proposed would entail building an undersea pipeline from the fields to Turkey’s southern border.¹⁶⁶

4.2.5 Geopolitics of the Pipeline



Figure 2, maritime demarcations of the Levant Basin countries

Geopolitics would continue to complicate cooperation plans between the two countries. Figure 2, shows claimed maritime territory of each country on the Levant Basin. The major challenge to any pipeline is the lack of recognition between countries. A pipeline between Israel and Turkey would be required to pass through Cyprus’s EEZ. A pipeline through Cyprus involves settling or making progress towards the Cypriot-Turkish dispute. While this thesis is not dedicated to discussing the Turkish-Cypriot conflict, it is essential to discuss its ramification on Turkish-Israeli cooperation.

turkey.co.il/?categoryId=71187.

¹⁶⁵ "Israeli-Turkish Trade Booming." The Canadian Jewish News. June 18, 2012. Accessed September 17, 2013.

<http://www.cjnews.com/?q=node/90253>.

¹⁶⁶ "Turkey's Zorlu in Talks on Israeli Gas, but Politics in the Way." | Reuters. October 31, 2013. Accessed November 2, 2013.

<http://uk.reuters.com/article/2013/10/31/turkey-israel-gas-idUKL5N0IK3MF20131031>.

The 1974 coup d'état carried out by the Greek Cypriot military junta and the subsequent response of Turkish invasion of Northern Cyprus, created the current conditions of a divided Cyprus. The green line that divided Nicosia, the country's capital, is now the border between the two countries. After fruitless negotiations the Turkish community unilaterally declared their independence in 1983. Turkish Republic of Northern Cyprus is only recognized by one country, Turkey, which also acts as the guarantor of the country's security. The global community has continued to recognize the Greek Cypriot government as the only legitimate government on the island. Settlement of the Turkish-Cypriot dispute has taken a higher level of importance since Cyprus accession into the EU. Since then, a number of negotiations have been held to reach a compromise between the two parties. In 2004, a reunification plan was put to referendum. The plan was accepted by the Turkish community but refused by the Greek.¹⁶⁷ Natural gas found on the coast of Cyprus has an important effect on the peace talks between the two communities. The finding could lead the Turkish party to accept greater compromise for economic benefit or it could lead to a hawkish Turkey inflaming the region with greater tension. Turkish FM recently said "there is a new window of opportunity for peace" adding that "any postponement of the resolution would only add more tension".¹⁶⁸ Negotiations on the Cyprus dispute are ongoing. These negotiations are among the many games involving regional actor vying for the riches in the Levant.

4.3 Israel's and Egypt's Dilemma of Common Interest

Since the beginning of 2011, Egypt's political fortunes have dramatically changed. The emergence of "hydro-politics" of the Nile has caused Egypt to look South rather than East for

¹⁶⁷ "Cyprus Profile." BBC News. February 04, 2013. Accessed November 15, 2013. <http://www.bbc.co.uk/news/world-europe-17217956>.

¹⁶⁸ "Turkey Eyes New Talks to Solve Cyprus Crisis." POLITICS. October 10, 2013. Accessed October 26, 2013. <http://www.hurriyetdailynews.com/turkey-eyes-new-talks-to-solve-cyprus-crisis.aspx?PageID=238&NID=55992&NewsCatID=338>.

most of the last two years. However, Egypt played peacemaker between Palestinian faction Hamas and Israel on its eastern front. More recently, Egypt's own internal strife, specifically the military's campaign against the Muslim Brotherhood, has occupied Egyptian politics internally and externally. The political leadership in Egypt faces a dilemma when it comes to cooperation with Israel. On the one hand, cooperation with Israel could produce strong economic incentives for Egypt such as fees for natural gas transports, access to inexpensive natural gas for domestic markets, and increase economic activity in the natural gas sector. On the other hand, cooperation with Tel Aviv risks political anger from newly mobilized domestic constituents. For Egyptian political leadership to sell cooperation, progress must be made on the Arab-Israeli conflict. Natural gas exports through Egypt represent the most efficient option for investors in Israel. But for Israel government, the risks would be to entrust its natural gas exports to a weak state in Egypt that has already reneged on a previous contract. Additionally, progress on the Arab-Israeli issue could be viewed with great risk by Israeli leadership.

4.3.1 South And East: Egypt's geopolitics

In the past three years, Egypt has changed four different leaders (Mubarak, Military, Morsi, Mansour). Their periods of weak leadership focused on traditional Egyptian foreign policy, specifically the Nile. Nearly every major population center in Egypt is concentrated on or near the Nile. The Nile is the single most important policy issue in regards to the security and prosperity of Egypt. Securing allocation to the Nile waters is the most significant national security priority for Cairo. The basin of the Nile includes Tanzania, Burundi, Rwanda, Democratic Republic of Congo, Kenya, Uganda, South Sudan, Sudan, Ethiopia, and Egypt.¹⁶⁹ The countries of the Basin, especially the upstream countries, continue to pose threats to Cairo's

¹⁶⁹ "Nile River ." Encyclopedia Britannica Online. Accessed November 26, 2013.
<http://www.britannica.com/EBchecked/topic/415347/Nile-River>.

water supply. Focusing on the Nile has historically shifted attention away from other issues, leaving Egyptian leaders with political capital to pursue other international ventures.

In 1959, Egypt and Sudan signed a water sharing treaty but Ethiopia has declared that it will not honor it.¹⁷⁰ Not long after concluding the treaty, Egyptian President Nasser ordered the building of the Aswan High Dam against the objections of the upstream countries. Egypt maintained that it would not compromise on issues of water. Egypt often threatened military action against its weaker neighbors. In 1979, shortly after the peace agreement between Israel and Egypt, Egyptian president Anwar El Sadat declared, “Any action that would endanger the waters of the Blue Nile will be faced with a firm reaction on the part of Egypt, even if that action should lead to war. As the Nile waters issue is one of life and death for my people, I feel I must urge the United States to speed up the delivery of the promised military aid so that Egypt might not be caught napping”.¹⁷¹ Shortly after Sadat’s warning to Ethiopia he went to Haifa and stated “I am planning to bring the sweet Nile waters—this is the sweetest of the four big rivers of the whole world—to the Sinai. Well, why not send you some of this sweet water to the Negev Desert as good neighbors?”¹⁷² The threats to the upstream countries followed by a geopolitical olive branch to the new peace partner are an example of the geopolitical positioning of Egyptian foreign policy. It also displays the greater importance of Egypt’s Southern front in comparison to the Eastern front.

In 1999, the Nile Basin countries created the Nile Basin Initiative (NBI) to construct a framework for cooperation. But divisions continued to hamper the operations of NBI. In May 2010, a selected group of upstream countries led by Ethiopia met to sign a cooperation

¹⁷⁰ Kendie, Daniel. "Egypt and the Hydro-Politics of the Blue Nile River." *Northeast African Studies* 6, no. 1 (1999): 141-69. doi:10.1353/nas.2002.0002.

¹⁷¹ *ibid*

¹⁷² Claiborne, William. "Sadat Offers Israel Water From the Nile: Sadat Offers Nile Waters To Israel, Attacks Arabs." *Washington Post*, September 7, 1979. Accessed January 26, 2014. <http://library.aucegypt.edu:2048/login?url=http://search.proquest.com/docview/147013940?accountid=8423>.

agreement on the reallocation of water resources.¹⁷³ Cairo and Khartoum were both absent and rejected such agreement. After the agreement, Ethiopia announced that it would construct the Grand Ethiopian Renaissance Dam on the waters of the Blue Nile, which provide nearly 85% of water flow to Egypt. According to internal emails leaked from geopolitical consultancy firm, Stratfor, Egypt and Sudan discussed taking military action against Ethiopia.¹⁷⁴ The emerging Ethiopian project is amongst Egypt's top national security issues until today.

Since the ouster of Mubarak, the Ethiopian issue has emerged at the forefront of Egyptian foreign policy. Shortly after becoming President, Mohamed Morsi took a two day trip to Ethiopia to signal a reopening of Egypt to Africa calling for a common market and collective development".¹⁷⁵ The visit was initially a positive step, however, Egypt could not sustain diplomatic pressure. Egypt's internal problems played a role by causing attention to be diverted away. In a televised meeting, Morsi and various national figures discussed plans to deal with Ethiopia's project. Several leaders called for sabotage or attacks against the Ethiopian dam.¹⁷⁶ Not knowing that TV cameras were recording live, the meeting embarrassed Egypt's political leaders in front of an international audience. This is evidence of the inability of Cairo to plan its foreign policy in the last three years. Shortly before his ouster, Morsi repeated that all options were on the table in dealing with the Dam project.¹⁷⁷ Questions of loyalty between civil-military relations hampered the ability of the president to carry out proper policies. In addition, Egyptian politicians have not adapted very well to political grandstanding while formulating effective

¹⁷³ Zahran, Nadia Ann. "Navigating the Regional Difficulties of the Nile." *Foreign Policy*. May 18, 2010. Accessed November 20, 2013. http://mideastafrica.foreignpolicy.com/posts/2010/05/18/egypt_s_existential_worry.

¹⁷⁴ Johnson, Michael Kelley and Robert. "STRATFOR: Egypt Is Prepared To Bomb All Of Ethiopia's Nile Dams." *Business Insider*. October 13, 2012. Accessed January 26, 2014. <http://www.businessinsider.com/hacked-stratfor-emails-egypt-could-take-military-action-to-protect-its-stake-in-the-nile-2012-10>.

¹⁷⁵ Hope, Brady. "Morsi Visits Ethiopia to Seek Unity in Nile Nations over Water." *The National*. July 16, 2012. Accessed September 26, 2013. <http://www.thenational.ae/news/world/morsi-visits-ethiopia-to-seek-unity-in-nile-nations-over-water>.

¹⁷⁶ HENDAWI, HAMZA. "Egyptian Politicians Discuss Attacking Ethiopia over Nile Dam." *Awramba Times*. June 3, 2013. Accessed September 30, 2013. <http://www.awrambatimes.com/?p=8212>.

¹⁷⁷ AP. "Morsi Warns Ethiopia on Nile Dam." *Taipei Times*. June 12, 2013. Accessed October 3, 2013. <http://www.taipeitimes.com/News/world/archives/2013/06/12/2003564628>.

policy.

Morsi's policies to the South of Cairo were in tradition with the past years. On the other hand, he altered the strategic dimension of foreign policy to the East. The Morsi administration lifted the isolation of the Palestinian Muslim Brotherhood faction, Hamas, in the Gaza strip. Morsi's political party came to power promising a more aggressive policy towards Israel but the realities of governing made Morsi the ultimate peacemaker between Hamas and Israel. Morsi's weakness at home contributed his administration inability to take a stand towards Israel. Egypt's domestic weakness furthered its inability to carry out foreign policy decisions. In the state of emergency that followed the ouster of President Morsi, foreign policy was delegated to former Egyptian ambassador to the United States Nabil Fahmy.

In 2012, FM Fahmy published an article in the *Cairo Review* about the scope and future of Egypt's foreign policy. In formulating a policy about the Nile basin countries, Fahmy said, "Their interest [upstream countries] in dam construction is, at this point, purely economic. Thus, Egypt must stress the importance of this issue to its most basic national interest and assert its historical right to a vital resource. However, it should do so in a fashion that underlines collective interest-based policies with the Nile Basin states and shuns belligerent rhetoric of the sort exchanged between Mubarak's regime and the Ethiopian government. The process might include the strengthening of bilateral and multilateral trade agreements, as well as cooperating on development projects, in exchange for the assured flow of water to Egypt's ever-growing population".¹⁷⁸ Since becoming foreign minister, Fahmy has placed Africa on top of his agenda. In a discussion held by the American University in Cairo Tahrir Dialogue, the FM stressed an Africa-focused Egypt. Not only did he stress water security, but he also discussed trade and the

¹⁷⁸ Fahmy, Nabil. "Egypt in the World: A Foreign Policy for the Twenty-First Century." *Cairo Review* 6 (Summer 2012): 90-107. Accessed December 15, 2013. <http://www.aucegypt.edu/GAPP/CairoReview/Lists/Articles/Attachments/222/CR6-Fahmy.pdf>. Pg. 98.

environment.¹⁷⁹ The South will occupy Egyptian foreign policy in the near future making confrontation with Israel less likely.

Additionally, the internal weakness of Egypt has caused a weak and limited foreign policy. Mohamed Morsi's ouster-- and the subsequent crackdown on the Muslim brotherhood -- has diverted state resources toward internal matters. Historically, a weak Egypt internally has been an inward looking. Instability in the Sinai has caused greater strategic cooperation with Israel, especially isolating Hamas in the Gaza Strip. This policy represents a turnaround from the ousted administration. Egypt's Eastern threats are changing from a state-centric Israel to a non-state actor with strong ties to the graver internal threat. Hamas, an offshoot of Egypt's brotherhood, has suffered a terrible setback after the ouster of Morsi and the reemergence of security centric regime. This has ushered in a new era of cooperation between Egypt and Israel.

This cooperation has increased since the unrest in the Sinai. In August 2012, Israeli newspaper *Haaretz* claimed that security cooperation "between Israel and Egypt is perhaps at the highest level it has been since the peace agreement was forged by the two nations".¹⁸⁰ After the ouster of Morsi, Egyptian troops have stepped up deployments to the Sinai to fight militants loyal to Islamists groups. These deployments have targeted tunnel operation between Gaza and Sinai. Those operations expanded during the period in which the Morsi administration was in power, but since July, the Egyptian military has clamp down on tunnel operations. Recent border closings between the Gaza Strip and the Sinai coupled with the destruction of tunnels previously used for illegal trade, appear to break the back of Gaza's Hamas-led government. According to the UN special coordinator in the Middle East, the Egyptian military has destroyed nearly 80%

¹⁷⁹ "Egyptian Foreign Policy in Transition." YouTube. December 18, 2013. Accessed December 20, 2013. <http://www.youtube.com/watch?v=BTf14zSMQCw>.

¹⁸⁰ Harel, Amos, and Avi Issacharoff. "Israel-Egypt Security Cooperation at One of Highest Levels since Peace Deal, Say Officials on Both Sides." *Haaretz.com*. August 9, 2012. Accessed September 2, 2013. <http://www.haaretz.com/blogs/east-side-story/israel-egypt-security-cooperation-at-one-of-highest-levels-since-peace-deal-say-officials-on-both-sides-1.457085>.

of cross-border tunnels.¹⁸¹ Despite Hamas' denial of involvement Sinai unrest, the Egyptian military is carrying operations unseen since its wars with Israel. In this instance, Israel and Egypt share a common goal of crippling the Islamist organization. Increased security cooperation with Israel opens the door for further security cooperation and offers opportunities for regime building. The increasing role of the military, combined with Egypt's weak foreign policy, could propel energy cooperation between the two countries. However, Egypt's internal politics and the politics of normalization could act as a hindrance.

4.3.2 Internal Politics

Regime formation requires input from domestic political sources. Simmons and Haggard argued that "domestic" political issues spill over into international policies and "foreign policy" has domestic roots and consequences".¹⁸² To form the foundations of a regime between Cairo and Tel Aviv, domestic actors must normalize their relations. Politics in Cairo are as volatile as ever, and as a consequence, the predictability of the political events has diminished significantly. More recently, however, domestic political events appear to be following the patterns of the 1950s and 1960s. Such politics could present both threats to and opportunities for Egyptian-Israeli cooperation. The Egyptian public has long been against normalization with Israel, especially without an advancement of the peace process with the rest of Arabs. However, strategic cooperation, as have been shown, is a hallmark in Egyptian-Israeli relations.

Shortly after the resignation of President Mubarak, a number of political groups and parties have materialized and Egyptians adopted a fascination with politics, political groups and personalities. Two years later political parties are not to be heard. The two groups, the Muslim

¹⁸¹ Kortam, Hend. "More Underground Tunnels beneath Egypt-Gaza Border Destroyed." Daily News Egypt. November 9, 2013. Accessed November 26, 2013. <http://www.dailynewsegypt.com/2013/11/09/more-underground-tunnels-beneath-egypt-gaza-border-destroyed/>.

¹⁸² Haggard, Stephan, and Beth A. Simmons. "Theories of International Regimes."

Brotherhood and the state establishment, that have, historically dominated the political scene, have regained their prominence. Shortly before the end of 2013, the Muslim Brotherhood was declared a terrorist organization by the Egyptian government.¹⁸³ The declaration and other recent events threaten Egyptian stability. The volatile and transitional nature of current Egyptian politics leaves very little room for historical precedents. However, the military remains intact and more powerful.

The most recent phenomena in Egyptian domestic politics is the rise of the powerful and popular military leader, General Abd El Fattah El Sisi. While very little is known about the General's beliefs, a number of Israeli military leaders have lauded his ability to cooperate with Israel. During his presidency, Mohamed Morsi did not deal directly with Israel. That task was delegated to his minister of defense, General Sisi. The general is well known to insiders in the Israeli security establishment. As the head of military intelligence, Sisi was viewed as very cooperative on issues relating to Sinai security.¹⁸⁴ In his thesis at the Army War College, the General rarely mentions Israel, except when he says that the development of democracy in the Middle East is complicated by the existence of Israel and democracy will negatively impact Israel.¹⁸⁵

As democracy recedes in Egypt and the military generals become more popular, cooperation is much more likely. Internal weakness and military strength could facilitate bilateral cooperation. However, the need for Egypt to cooperate is very little. Egypt's natural gas resources if further developed can sustain its growth. The biggest winner in Israeli-Egyptian

¹⁸³ "Egypt's Muslim Brotherhood Declared 'terrorist Group'" BBC News. December 25, 2013. Accessed January 26, 2014. <http://www.bbc.co.uk/news/world-middle-east-25515932>.

¹⁸⁴ KERSHNER, ISABEL. "Israel Sees a Chance for More Reliable Ties With Egypt and a Weakening of Hamas." New York Times. July 5, 2013. Accessed October 5, 2013. http://www.nytimes.com/2013/07/06/world/middleeast/israel-sees-prospect-of-a-more-reliable-egypt-and-a-weaker-hamas.html?_r=0.

¹⁸⁵ ElSisi, AbdelFattah S. "Democracy in the Middle East." Thesis, Carlisle, PA/U.S. Army War College, 2006. Accessed December 29, 2013. <http://www.foreignpolicy.com/files/war-college-paper.pdf>.

cooperation would be the Damietta LNG plant operator. The LNG plant in Damietta, which majority-owned by Spanish Union Fenosa Gas, has been idle since February 2012 and is unlikely to return online any time soon.¹⁸⁶ The LNG plant in Damietta, has only one LNG train; each addition of LNG runs nearly US\$3 billion.¹⁸⁷ Israel gas would either be connected via an undersea pipeline or by reversing the existing pipeline. Cairo's energy policy has been sluggish in responding to changing natural gas markets and the instability caused by stagnation of production and reserves. Egypt's subsidization of domestic prices has also caused investment to decrease dramatically, slowing-down output. Chairman of EGAS, a government owned natural gas holding, said that Egypt is not interested in purchasing gas from Israel, and that it would rather rent a re-gasification plant and receive shipments of LNG.¹⁸⁸ This is a much more expensive alternative than importing natural gas from Israel.

But The Egyptian military would lose a great deal of political capital if it cooperates with Israel on natural gas. The military's campaign against internal "terrorism" requires substantial political capital. After the peace deal, Sadat garnered a great deal of political capital and control over the military allowing him to sell oil to Israel. Furthermore, Egypt needed the foreign capital due to a deteriorating economy. While the same economic conditions exist today, allowing for natural gas to be transported and liquefied does not bring the economic benefits of direct sales of hydrocarbons.

Any repetition of Mubarak's energy deals would be politically harmful. Natural gas deals during the Mubarak era were viewed as heavily corrupt. A re-emergence of such views could further weaken the military generals and the political powers in Egypt. The emergence of popular

¹⁸⁶ Rucinski, Tracy. "Damietta LNG Plant Files Complaint against Egypt's EGAS." Reuters. April 22, 2013. Accessed August 26, 2013. <http://www.reuters.com/article/2013/04/24/egypt-gas-idUSL6N0DB30820130424>.

¹⁸⁷ The US\$3 billion figure is extracted from the Washington Institute article about the options increasing LNG capacity.

¹⁸⁸ Fick, Maggie. "Egypt Says Not Interested in Israeli Gas as Plans LNG Imports." Reuters. October 23, 2013. Accessed January 23, 2014. <http://www.reuters.com/article/2013/10/23/energy-egypt-gas-idUKL5N0ID1VU20131023>.

politics in Egypt and hyper-nationalism could complicate any process of cooperation. Cooperating with Israel to damage the Muslim Brotherhood could be acceptable to a stability minded Egyptian public, however, further cooperation with Israel on energy could be deeply divisive and politically destructive. A settlement of the Arab-Israeli conflict, especially Palestinian rights, would provide political capital needed for cooperation and regime building. The other alternative would be strong Egyptian leadership able to see the “shadow of future cooperation”.

4.4 Modeling the Prisoner's Dilemma

Israel's ability to exploit the riches of the Levant hinges on its ability to develop an export strategy. While it can technically and economically develop a strategy independent of regional actors, such action would have negative ramifications. The ramifications include increasing political tension, the plausibility of miscalculation, and a dangerous realignment of the balance of power in the Eastern Mediterranean. Cooperation could be the best long-term strategy for Israel and its neighbors because of their repeated interactions. But cooperation requires compromise. The opportunities and incentives for actors in the Levant Basin to cooperate or defect are many. Cooperation on any side would require territorial compromise that has long-held down the region's prosperity.

As we have explained, Axelrod's concept of tit-for-tat presents the best strategy for cooperation. This strategy is predicated on players acting “nice” rather than acting ‘clever’. When a player cooperates, the other player acts reciprocally. Entering the arrangement of initial cooperation is rather difficult since defection is the safest strategy. Actors are hesitant to cooperate because if they cooperate and the other actors choose to defect, the cooperators are much worse off than if they each defect. The calculation of actors is that $DC > CC > DD > CD$. The

political leadership of each country calculates decisions regarding cooperation or defection. This is not always the best interest of the “state” but it is the best-perceived interest for the political leadership.¹⁸⁹ In IPD, political leaders incentives are altered by “lengthening the shadow of the future” in order for cooperative behavior to payoff.¹⁹⁰

In an IPD it may be possible to resolve the dilemma. Players must believe in three main conditions: 1) players must settle for less initial gain, 2) players must believe that the other side will cooperate, 3) players cooperation hinges on the belief that future interactions are likely. I will use Axelrod’s *discount parameter* as heuristic technique to present a model illustrating the dilemmas of common-interest based cooperatives. According to Axelrod *discount parameter* ($1-w$), players may calculate that the gains of DC is less than an endless number of future CC/ $(1-w)$, where w is the measure of importance of each move to the next move¹⁹¹. For instance, if a player calculate that the gain of DC is 5 and the gain of CC is 3, the player would choose to cooperate or $DC < CC/(1-w)$ if $w =$ at least .40 or 40%. The closer the spread between perceived gains of DC in comparison to CC, the greater the likelihood of cooperation. For this experiment to work the perceptions of risk need to be as low as possible and the perception of future interactions or $1-w$ must be sufficiently high. These gains are a sum of political values and financial values. The challenge is to recognize the environment of the players and the choices available to them. Additionally, the players perceived risks from cooperation and importance of gains from defecting. As Krasner argued, “regime-governed behavior must not be based solely on short-term calculations of interests”.¹⁹²

Among the most integral challenges of cooperation is balancing between Israel’s

¹⁸⁹ Haggard, Stephan, and Beth A. Simmons. "Theories of International Regimes. "

¹⁹⁰ Ibid.

¹⁹¹ Axelrod, pg 13

¹⁹² Krasner, Stephen. "Structural Causes and Regime Consequences: Regimes as Intervening Variables." In *International Law and International Relations*, 3-11. Cambridge, England: Cambridge University Press, 2006. Pg 4.

different policy objectives and the high cost of natural gas infrastructure. Since regimes are created to cut transaction costs, therefore, the initial cost of investment in cooperation matters politically as well as economically. Israel's investors and politicians are faced with a dilemma between market accessibility,¹⁹³ cost,¹⁹⁴ and political freedom.¹⁹⁵ Infrastructure options costs are as follows: 1) export to Egypt at an estimated investment cost of US\$450m for the required pipeline,¹⁹⁶ 2) export to Turkey at an estimated cost of US\$2.5b, 3) export through Cyprus at an estimated cost of US\$9b, 4) export by building a floating LNG plant on Israel's maritime territory estimated at US\$10-12b. The most expensive project, the floating LNG, has the lowest risk because it keeps open various responses to political and economic conditions. Cypriot plan offers market accessibility but it is against Israel's policy objectives of having territorial control over the LNG plant. Egypt's route offers market accessibility since Egypt is both an export destination and an export platform with LNG capacity; however, Israel then risks having the Egyptian route as its only option for natural gas. Turkey offers some market accessibility in terms of Turkish and European markets but very little political control and great geopolitical risk.

In our analysis, paying attention to the chessboard available to the players is very important. In IPD, unlike one-time action payoffs, it is rather a repeated game between two players and in our case simultaneous games being played involving different players. In this thesis, I refer to these different games as the "environment of players". Each player acts within its own environment, which impacts the decisions of their game with the opposite player. For instance, Turkey is simultaneously negotiating a settlement with Cyprus while Israel negotiates a

¹⁹³ Ability to ship to Asian and European markets.

¹⁹⁴ Cost of export infrastructure

¹⁹⁵ The ability to have political control over export routes

¹⁹⁶ Estimates are based off earlier cost of the Arish-Ashkelon pipeline, costs could be much lower if the same pipeline is used by simply reversing the flow of natural gas.

settlement with the Palestinians. These negotiations directly contribute to our 2-player games. Players (i.e. Israel, Turkey, and Egypt) are looking at these different games to understand their next moves on the bilateral chessboard. Simultaneously, firms that have invested in exploring natural gas are advocating a quick profitable solution. While the Egyptian route produces the best return on investment, building an FLNG could be the most politically appealing route to Israeli politicians. Variables of relative return on investment, market accessibility, and political expediency play a role in calculating the different moves on the chessboard. The first dilemma we analyze is the Israeli-Turkish game.

4.4.1 Turkish-Israeli PD

The conditions for cooperation between Turkey and Israel are: Turkey makes a final compromise on the Cypriot-Turkish dispute paving the way for a pipeline to traverse Cypriot territorial waters. Israel would compromise by agreeing to the pipeline, which limits the flexibility of an LNG plant but guarantees a growing Turkish market and future energy sales to Europe's market.

The conditions for Turkish defection and Israeli cooperation are: Turkey makes initial compromises with Cyprus to agree on pipeline traversing its territorial waters. Israel agrees and builds the pipeline, then Turkey reneges on its earlier deal and fails to conclude a final settlement, thereby leaving Israel stuck with its jointly owned pipeline and beholden to it as the only export option. Israel is worse off in such scenario because its initial policy objectives were to avoid territorial disputes and entanglements. Further complications between Cyprus and Turkey would threaten Israel's exports.

The conditions of Israel defection and Turkish cooperation is as follows: Turkey compromises and creates a final settlement with Cyprus believing that such a settlement will make Israel cooperate on natural gas. On the other hand, Israel sticks to its initial policy

objectives of assuring maximum flexibility economically in terms of global market access by cooperating with Cyprus on an LNG plant or by assuring complete political control by building a more expensive FLNG inside its territorial waters.

Defection for Israel and Turkey means that Israel will not have access to Turkish and European markets at a inexpensive cost of a pipeline and Turkey will be unable to further diversify its natural gas imports and build the geopolitically valuable web of energy connections.

Israel	Turkey	
	C	D
C	<ul style="list-style-type: none"> ● Pipeline investment ● Geopolitical strength ● Domestic supply and new energy markets. ● Increased regional security cooperation. 	<ul style="list-style-type: none"> ● Turkey makes initial agreements with Cyprus, in-return Cyprus agrees to let the pipeline go through Cypriot territory, Israel cooperates but Turkey defects on agreements with Cyprus ● Turkey gets natural gas, despite Cypriot objections, but Israel is beholden to Turkey as its only export route.
D	<ul style="list-style-type: none"> ● Turkey compromises with Cyprus. ● Israel defects and invests with Cyprus because it offers Israeli firms more flexibility in shipping routes and now more security in terms of Cypriot-Turkish settlement. 	<ul style="list-style-type: none"> ● Israel does not access the Turkish market but has other options to export natural gas. ● Turkey's does not diversify natural gas imports nor does it grow its geopolitically strategic energy hub.

Table 1, Turkey-Israel PD

4.4.2 Egypt-Israeli PD

Israeli cooperation with Egypt requires less initial investment by either party as Egypt's LNG exporting platform offers greater accessibility to global market. Inexpensive access to this platform is an important driver for investors. Egypt's LNG facilities and low costs of connecting a pipeline could make it an ideal choice for investors of Leviathan and Tamar. However, Egypt's recent history of defecting from the contract to supply Israel's natural gas does not show 'nice'

behavior for the potential cooperator. Despite Egypt previous behavior, it remains a strategic choice economically. On the other hand, the weakness of internal Egyptian politics, hyper-nationalism, and the increasingly vulnerable security situation makes it a tough sell. Cooperation with Egypt would have to come with certain inducements of progress on the peace process that might reduce the political risks of engagement.

Conditions of Egypt-Israeli cooperation are as follows: Israel and Palestine make sufficient progress toward final settlement to induce Egypt to cooperate. Egypt would commit to securing Israel's pipelines and receive its natural gas imports from Israel. Strategically, Israel becomes beholden to Egypt. Egypt will be the receiver of Israeli exports for domestic consumption and the outlet for Israeli gas to global markets.

Conditions of Egyptian defection and Israeli cooperation are as follows: Israel makes good on its peace promises while Egypt still decides that it is too risky to import Israeli gas for domestic political reasons. Additionally, Egypt makes good on domestic market reforms increasing domestic supply of natural gas or decides to import natural gas from abroad at lower cost from gulf countries such as Saudi Arabia. Egypt could initially work with Israel but decides to annul the contract as it has done previously.

Conditions of Egypt cooperation and Israel defection: Egypt cooperates with Israel as the peace process seems to take positive steps, however, no final settlement is concluded. Israel opts for a more expensive but politically more desirable method of exporting natural gas. Egyptian politicians lose political capital and delay domestic market reforms.

Defection for both countries means that Israel loses the best economic option of exporting natural gas and Egypt will be unable to have access to Israeli gas. Israeli gas could be important as source for domestic consumption or as investment to re-operate the Damietta plant.

Israel	Egypt	
	C	D
C	<ul style="list-style-type: none"> ● Israel compromises on peace process/Egypt's politicians can sell working with Israel as part of peace. ● Egypt would receive foreign investment. ● Egypt would receive natural gas at a cheaper price/Israel would sell natural gas efficiently. ● Israel would have access to LNG facilities providing greater market flexibility/Egypt would re-start those LNG facilities 	<ul style="list-style-type: none"> ● Israel compromises on the Palestinian issue. ● Egypt defects by buying natural gas from other destinations. ● Egypt political actors gain political capital by shunning Israel even after a compromise with the Palestinians.
D	<ul style="list-style-type: none"> ● If Egypt cooperates, without Israel continuing effective steps in the peace process, Egypt risks alienating domestic constituents and Arab partners, while Israel gets access to markets with carrying out regional compromises. 	<ul style="list-style-type: none"> ● In case of defection, both gain nothing and they both lose an opportunity for collaboration.

Table 2, Egypt-Israel PD

4.5 External Powers

Exports of Israeli natural gas and the riches of the Mediterranean are of great importance not only to the countries in the region but also to great powers. The United States, the European Union, and Russia have showed great interests in East Mediterranean riches, however, each of them has their own interests. Their leverage is part of any dilemma that these countries face in their decision-making processes. Great powers have had a great impact on cooperation in this

region, especially security cooperation and energy cooperation. The U.S. Johnston mission in the 1950s tried but failed to secure regime cooperation between Levant countries over water allocation. The energy opportunities in the Levant basin could present yet another effective tool to enhance cooperative behavior. The EU, US, would likely welcome cooperation. On the other hand, Russia role is to play spoiler in any deal that would involve exports to Europe.

The EU and the United States have similar visions of the Eastern Mediterranean. The EU has a number of interests in the development of the natural gas sector. EU member countries overreliance on Russian energy is a strategic flaw to an independent Europe. The EU is seeking to develop strategic diversification. Brussels has already indicated its partnership with former Soviet countries such as Azerbaijan and partnerships with countries in North Africa especially Libya and Algeria continue. The riches of the Levant offer another excellent opportunity to diversify its energy resources.

The EU has an interest in also maintaining security in the Eastern Mediterranean. Greece, Italy, France, and Spain do not want to see a naval arms race on their backdoor. Increase in tension, especially between Israel and Turkey, could drag Cyprus and possibly Greece into a wider conflict. The United States continues to be the region's predominant naval power. The US has a great interest in the stability of the region, especially preventing an arms race between its two best allies, Israel and Turkey, and increasing cooperation between Israel and its neighbors has always been Washington's intention.

More recently the sovereign debt crisis and the non-performing southern economies of the EU have posed the greatest threat to the cohesion of the super-national entity. Greece and Cyprus have suffered through fiscal austerity and low economic growth. The riches of the Levant could present an opportunity for these countries to capitalize on natural resources and stimulate

their economies. The weak Cypriot economy could use EU stimulus to build an LNG facility,¹⁹⁷ this could be conditioned on accepting a peace agreement with Turkish Cyprus.

Encouraging cooperation between the countries in the region could also assist in the ongoing peace process. The Kerry peace negotiations could be Washington's last effort for an agreement through the current framework. Since the start of the peace process Israel has signaled that it will allow the cash strapped Palestinian Authority (PA) to monetize the offshore gas fields discovered off the coast of Gaza.¹⁹⁸ More recently, the PA electric company signed a deal that would make it the first foreign purchaser from Tamar gas field production. However, the deal will only occur when a power plant is built in the West Bank.¹⁹⁹ Cooperation on energy issues could produce the right linkages to decrease the opportunities for conflict among countries in the region if the peace process fails. On the other hand, success of the peace process could assist Washington in creating a web of cooperation in the region between its partners to promote its political and security agenda.

The United States will most likely be interested in playing a role of cooperation on the high seas. Washington can coordinate and facilitate maritime activities between its two most strategic allies in the Eastern Mediterranean. However, Washington and Brussels' greatest leverage comes from their ability to mediate for peaceful settlements between Cyprus and Turkey or the Arab-Israeli conflict. Cyprus could demand that in case of a settlement, Israel and Turkey must agree to make commitments to fund a Cypriot LNG plant. Cyprus decides to play the role of spoiler by not agreeing on Turkish-Israeli cooperation or not settling the Cypriot-Turkish conflict, which could further restrict Cypriot exploration activities.

¹⁹⁷ "European Investment Bank Considers Financing for Cyprus LNG Facility." Natural Gas Europe. May 31, 2013. Accessed October 12, 2013. <http://www.naturalgaseurope.com/europe-ready-to-finance-cyprus-lng-facility>.

¹⁹⁸ Reed, John, and Guy Chazan. "Gaza Strip Gas Project Poised for Approval." Financial Times. October 9, 2013. Accessed November 26, 2013. <http://www.ft.com/intl/cms/s/0/13474ef2-3027-11e3-80a4-00144feab7de.html#axzz2qWlhg11h>.

¹⁹⁹ "Palestinian Power Company Signs Natural Gas Deal." Maan News Agency. January 8, 2014. Accessed January 21, 2014. <http://www.maannews.net/eng/ViewDetails.aspx?ID=662891>.

Russia has significantly different interests in the Levant than the EU and the US. Losing market share or increased competition from firms operating in the Eastern Mediterranean is not in Russia's interest. Initially Gazprom (government owned energy firm) seemed to be on track to own rights for Cypriot natural gas production. But under EU pressure, Cyprus decided to end negotiations with the company.²⁰⁰ Gazprom has also displayed strong interest in Israeli gas. In February 2013, the company signed a letter of intent on the Tamar field that would make it a substantial owner and to build a liquefied natural gas station.²⁰¹ Multiple reports suggested that the Russian firm, with heavy lobbying from the government, is trying to gain favorable terms that would include a "deal" where Israel will promise not to export natural gas to Europe.²⁰² These talks have not produced any concrete results and are likely off the table. Russia's position is to be a spoiler in any deal that would send natural gas to the EU.

²⁰⁰ "State Switches Bidder in Block 9 Negotiations." Cyprus Gas News. December 20, 2012. Accessed January 26, 2014. <http://www.cyprusgasnews.com/archives/1703>.

²⁰¹ Trilnick, Itai. "Tamar Partners, Gazprom Agree to Join Forces to Export Liquefied Gas." Haaretz.com. February 27, 2013. Accessed November 29, 2013. <http://www.haaretz.com/business/tamar-partners-gazprom-agree-to-join-forces-to-export-liquefied-gas.premium-1.506060>.

²⁰² Barkat, Amiram. "Israel in Gas Talks with Russia." Globes Israel Business Arena. October 29, 2013. Accessed November 10, 2013. <http://www.globes.co.il/serveen/globes/docview.asp?did=1000889580&fid=1725>.

Chapter 5: Conclusion

Resolving the long drawn-out territorial disputes in the Eastern Mediterranean continue to hamper economic opportunities. The natural gas discoveries present great opportunities for regime building in the Levant. Under the best conditions, planning for Israel's export policy could have been fairly simple. Israel could send natural gas to Egypt's LNG plant for a very small investment and build a pipeline to Turkey simultaneously. These two options together present Israel with access to Asian market through liquefied natural gas and use the least expensive method of exporting natural gas to Turkey and EU markets. Creating a web of natural gas interconnections could foster greater security cooperation and eventually cause a spillover effect. While the conditions of 2014 are substantially better for cooperation than the conditions of 2012, cooperation continues to face geopolitical and internal pressure. Israel is likely to defect rather than cooperate with either Turkey or Egypt. The long-time horizon of concluding regional settlements along with the increasing costs of inactivity will cause companies to invest in the least politically risky option, sidestepping any regional cooperation.

5.1 Failure of Israeli-Turkish cooperation

Israel policy objectives will find defection as the most suitable option in light of the continued wrangling between Cyprus and Turkey. Israel will conclude that cooperating with either Turkey or Cyprus could increase geopolitical risk. Turkey will conclude that the risks of compromising with Greek Cyprus are too great for the sake of obtaining new natural gas supplies. In its calculations, Turkey believes that in the future it could find energy resources on Turkish Cypriot territory and a compromise would allow Israel to easily work with Cyprus on an LNG plant. Turkey could assume that Israeli cooperation with Cyprus would be triggered if the territorial

disagreement were settled. Turkish officials are worried about the increase in cooperation between Israel, Greek Cyprus and Greece. Turkish compromise with Cyprus could open the door for deepened cooperation. A new alliance on the eastern Mediterranean supported by the United States could engineer a rebalancing of power in the region.

5.2 Failure of Israel-Egyptian cooperation

Firms operating the natural gas fields will continue to explore the Egyptian route. However, politics and insecurity will stand in the way of long term planning. Natural gas infrastructure is based on long-term agreements. Political uncertainties in Cairo along with the increasing security risks will make such agreement untenable. The political environment in Cairo does not allow its policymakers to see the consequences of defection. Rather than cooperation, Cairo's policymakers are shortsighted and unable to see the role of natural gas discoveries in repeated interactions. On the other hand, Israel's politicians find the risks from defection inconsequential. Israel's policymakers see greater risk in cooperating on a peace agreement with the Palestinians than in developing a gas regime with Egypt.

5.3 Consequences of Defection

Israel's growing power compared to its neighbors could lead to negative consequences. Israel's energy independence will bring many positive changes to the country's economy. But increasing economic wealth could contribute to a heightened threat perception by other regional powers. Inadequate cooperation on the high seas will increase the risk of miscalculation. Israel will continue purchasing naval equipment to secure natural gas facilities. On the other hand, Turkey will counteract Israel increasing naval upgrades by its own naval buildup to maintain the balance of power. The possibilities of an arms race on the Eastern Mediterranean will considerably increase as these nations vie for supremacy on the high seas. The inability of Cairo and Tel Aviv

to cooperate is another missed opportunity for normalization. The likelihood of miscalculation will only increase without regulation and coordination between these regional powers.

5.4 Conclusion

This thesis analyzed the different political players' priorities and perceptions of the political environments in dealing with the natural gas boom in the Eastern Mediterranean. It spelled out their respective dilemmas of common interest in building gas regimes. The model of an iterated prisoner's dilemma was a useful analytic tool for envisioning the various possibilities for long-term cooperation and their associated risks. The historical relations between players obviously condition their current environment. Investigating the environments that caused these players to cooperate in the past supply a reference point for the current political environment.

The current geopolitical and internal environments in the region deter cooperation patterns. Cooperation between Turkey and Israel is unlikely due territorial geopolitical conflict over Cyprus. Cooperation between Egypt and Israel is unlikely because of the internal weakness of Egypt's policymakers. Regional territorial conflict exacerbates perceived security threats making cooperation difficult. External powers can act by inducing several actors to take the risks associated with cooperation. The United States ability to reach an agreement between the Israelis and Palestinians would create the viable political climate between Israel and Egypt. The EU's growing influence on a weak Cyprus could entice them to cooperate with Turkey. Russia, however, will continue to use their political and economic clout to disturb future partnerships that would result European imports of Israeli natural gas. Without cooperation and lack of coordination, these security threats are likely to increase creating numerous geopolitical crises in the region. The maritime territorial conflict will worsen. The imbalance of power will allow Israel to escape a solution, which further increases tension. Turkey will continue to wreck havoc

on Cypriot waters. Without an immediate solution, tensions and suspicions will only increase. Unresolved territorial and maritime disputes often lead to conflict. The dissipation of hegemonic powers in the region could alter the balance of power. The shifting of alliances on Eastern Mediterranean, apparent in increasing cooperation between Israel, Greece, and Cyprus, coupled with historical and regional rivalries is a disastrous recipe for the region.

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